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ROYAL COMMISSION

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ROYAL COMMISSION ON TAXATION

Proceedings of hearings held before
the Royal Commission on Taxation
in the Supreme Court of Canada
Building, Ottawa, Ontario, commencing
at 9:30 o'clock a.m. on Tuesday,
January 7th, 1964.

COMMISSION:

MR. KENNETH LEM. CARTER -- Chairman

MR. J. HARVEY PERRY

MR. A. EMILE BEAUVAIS (Chairman -
January 7th, 1964).

MR. DONALD G. GRANT

MRS. S.M. MILNE

MR. CHARLES E.S. WALLS

LEGAL ADVISER:

MR. J.L. STEWART, Q.C.

RESEARCH DIRECTOR:

PROF. D.G. HARTLE

SECRETARY:

MR. G.L. BENNETT



Ottawa, Ontario,
Tuesday,
January 7, 1964.

---On commencing at 9:30 o'clock a.m.

THE CHAIRMAN: Mr. Secretary, it is 9:30. I think we might commence.

THE SECRETARY: Good morning, Mr. Chairman and Commissioners. This morning the first brief is being presented by the Canadian Association of French-speaking doctors. Dr. Gerard Casgrain and Dr. Marc Geoffroy are here this morning to speak to the brief. The doctors tell me they have no prepared statement but they are at your pleasure, Commissioners, to answer questions on this brief.

Mr. Chairman, I would like to enter this brief into the record as Exhibit No. 291.

---EXHIBIT NO. 291: Brief of Association
des Medecins de Langue
francaise du Canada.

THE CHAIRMAN: Thank you, Mr. Secretary. Good morning, doctors. It is pleasure to meet you. I will ask my colleague Mr. Beauvais to direct the meeting today. It is our French day. It is a pleasure for us but we are going to continue in our own language because it is impossible to translate from language to language and so I am going to speak English only.

Now, I would ask Mr. Beauvais to take the chair.

(Mr. Beauvais becomes the Chairman).

THE CHAIRMAN (Mr. Beauvais): Good morning.
We are pleased to meet you here especially for



1 Commission purposes rather than professional reasons.

2 I wish to refer to the brief at page 1 where
3 you speak about income tax. You say "The taxpayer,
4 however, rather than be deprived of part of his income,
5 will often be content to do a minimum amount of work,
6 to the detriment of the economic development of the
7 country", which results in slow economic growth.

8 Is it not right that we, federally,
9 provincially or municipally, should contribute to the
10 expenditures of the country in order to cover the cost
11 of family allowances, old age pensions, unemployment
12 insurance and provincially and municipally the cost of
13 health, highways and so forth?

14 It seems to me that each expert has
15 included no part of this revenue to the State. Would
16 you have anything to say on that point?

17 DR. GEOFFROY: I think that everybody feels
18 that expenditures should be paid by the taxpayers but
19 we have to know that we are going a little bit too far;
20 those who pay more income tax because of the increasing
21 personalities of those who can bring more to this
22 amount and to the economy by their initiative and work.
23 Because of the personalities the worker who earns his
24 living with his hands follows the stream but he would
25 not have any part of the initiative in new enterprises.

26 He is the one who benefits most by it, as
27 far as social help is concerned and we believe that
28 everyone should pay more.

29 We should wonder whether we have not reached
30 the point where a certain class is being over taxed and



1 whether there is enough left for the effort made.

2 THE CHAIRMAN: But you agree that those who make
3 more should pay more, while we are discussing progressive
4 tax rates?

5 DR. GEOFFROY: The peak or I should say the
6 maximum is perhaps too high. Would it not be possible
7 to remain at a certain level, let us say 45 or 50 per
8 cent so that the richer ones will work harder to
9 develop the country; otherwise it would be working less
10 because the moment they have -- or else they will stick
11 to ten or 15 per cent of their efforts.

12 THE CHAIRMAN: But your committee did not have
13 a maximum rate of personal income tax.

14 DR. GEOFFROY: No. It is rather difficult for
15 us to figure. We are not specialists in that matter.
16 We can understand the idea behind that or the spirit,
17 when we say we worked half for ourselves and half for
18 the others. We think that when we reach the 50-50
19 mark we have done our duty.

20 THE CHAIRMAN: You are not talking only of
21 physicians.

22 DR. GEOFFROY: No, we are talking in a
23 general way.

24 COMMISSIONER WALLS: I would like to ask
25 a question on income tax before you pass away from it.

26 THE CHAIRMAN: I am still on income tax. In
27 section 4 you speak of depreciation of human capital,
28 of the value of human capital of the professional
29 classes.

30 How are we to establish a basis for the



1 valuation of capital? What basis would you think this
2 depreciation should be established on?

3 DR. CASGRAIN: The first calculation could be
4 made according to the expenses incurred.

5 THE CHAIRMAN: You have a section on that,
6 do you not, with regard to post-graduate costs.
7 Assuming that it is possible to establish a basis, do
8 you calculate that the value of such capital is only the
9 cost of such courses?

10 DR. GEOFFROY: No. I believe that this could
11 be applied to all those who earn their living by the
12 hour, whether they be professionals and -- when their
13 revenue is restricted or limited by the time; by
14 contrast with financiers and businessmen who invest
15 money in industry or commerce or people working. We
16 agree they work hard but their revenue is unlimited while
17 as far as intellectual work is concerned, there is a
18 time limit. As time goes on one cannot earn as much
19 and cannot work as many hours. So much so that we
20 think that income tax should be calculated in another
21 way so that revenue from intellectual work would be
22 assessed in a different way from revenue through
23 investment or loans because in the business world, at
24 the end of the year there is always something left in
25 industry or commerce. Something still remains while
26 in the hands' work or intellectual work there is
27 nothing left and the children cannot look after us.
28 That is the only reason why we think that.

29 THE CHAIRMAN: I do not understand as to how
30 you would establish the basis for such capital for



1 depreciation purposes. You have been speaking of
2 capital depreciation, have you not?

3 DR. GEOFFROY: Yes. I agree that we talk
4 about capital depreciation because we are trying to
5 make a difference between people who can depreciate
6 their investment while in our case we cannot depreciate.
7 We could have a different tax basis but by contrast
8 from one who gets his revenue from investment, where
9 personal effort is required; but when most of the
10 revenue comes from the worker or the others like the
11 large industry, which is the result of the effort of
12 everyone, while in our case it is our own individual
13 effort, so therefore the taxation basis should be
14 changed.

15 DR. CASGRAIN: It does seem to us that
16 income varies in value. You may have property which
17 will be part of the estate. This is calculated in
18 your income tax just as much as what I can earn with
19 some trouble at times, yet I don't think there is the
20 same effort that money as in earning my money at my
21 own particular job.

22 THE CHAIRMAN: Doctor, you suggest a different
23 basis for taxation for investment and income from
24 professional activity.

25 DR. CASGRAIN: I would not say professional
26 activity but income from work, yes. It does seem to
27 me those two should be taxed differently. The fellow
28 who has to work for his living doesn't really earn his
29 money in the same way as the fellow who would earn it
30 from investment or even from gifts.



1 COMMISSIONER WALLS: I wish to deal with

2 paragraph 3 in which you say "The taxpayer, however,
3 rather than be deprived of part of his income, will
4 often be content to do a minimum amount of work, to the
5 detriment of the economic development of the country.

6 It is not unusual to hear of salaried employees wanting
7 leave as a compensation for overtime on the grounds
8 that time off is as yet untaxed."

9 Well now, I have never heard of this being
10 used as an argument. It could very well be but then
11 I am just asking would the answer not be then, if you
12 say the elimination of part or all of the income tax
13 is an inducement to do a normal period of work, would
14 they then be content to swing to a consumption tax
15 whereby they would receive their full salary or a
16 greater portion of it, which would be an inducement to
17 work and because of the tax on the consumables, they
18 would have to work that much harder in order to pay
19 for them.

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1 DR. GEOFFROY: This is a psychological
2 question. Most taxes levied at the manufacturers level,
3 etc., are much more readily accepted. They are not
4 accepted as much as a penalty as income tax seems to
5 be. People will pay sales tax of 6 per cent quite
6 readily. This sales tax is calculated on the price
7 which is paid for the merchandise. People have no
8 objection to that really, but when they are penalized
9 for having worked directly, that is where the rub comes.
10 It seems a little abnormal.

11 Ordinarily, we are speaking of people who
12 prefer holidays to extra pay. I think that sentence
13 was added by myself because I have had personal
14 experience of people who have refused to be paid for
15 working extra time. They have refused the extra pay
16 because they have preferred the extra time off. They
17 are not interested in earning extra pay because of the
18 tax position. They would prefer to take time off
19 for Christmastime, and so on. Yet these people are
20 earning small salaries. Income tax might be 10 or
21 15 per cent in this case.

22 We conceded that in some areas we are dealing
23 with people who pay a lot more in income tax. Do they
24 not have a tendency to work less to reduce the risks
25 because they wonder what exactly they are going to
26 earn? I do not know how general this is, of course,
27 because we have not carried out any extensive survey
28 of this matter. This, as I have said, is a personal
29 reflection on my part which is based on personal
30 experience, because we have had secretaries who have



1 preferred time off to earning extra money. They have
2 preferred not to earn any extra money but have preferred
3 time off, instead of going well up into the income
4 tax brackets.

5 People will spend astronomical sums of money
6 to buy alcoholic beverages, for instance. They are not
7 concerned with the price they pay because of the tax,
8 whether it is 20 per cent or 25 per cent.

9 COMMISSIONER WALLS: I wonder if those cases
10 which have come to your attention have been predominantly
11 married women?

12 DR. GEOFFROY: No. They are young people.
13 They are single people, bachelors and so on.

14 COMMISSIONER CARTER: I am interested as to
15 why you feel so strongly with regard to the disincentive
16 effect of high rates of tax. We hear about this a
17 good deal and it is very hard to make up one's mind
18 as to the extent of its effect. In fact, I sometimes
19 wonder whether, if tax rates were a good deal higher,
20 people would not work harder than they are now and would
21 not have to work harder to support themselves. I am
22 not at all sure of the merits of your argument. We
23 have frequently asked whether anyone has any examples
24 of people who will not work because of the higher
25 rates of tax, but it is a very hard thing to achieve.
26 We have had lots of opinions on it but very little
27 supporting evidence. You mentioned one case of a
28 female employee who preferred to have a holiday instead
29 of some additional pay. Do you know yourself of many
30 instances of that sort of thing?



1 DR. GEOFFROY: Unfortunately that is the only
2 instance I can quote because we have made no investigation
3 on this subject. But it does seem to me that the
4 argument is valid since young ladies of twenty or so
5 have thought of the argument. That being so the same
6 idea must have occurred to people with more experience.
7 I am not going to generalize but it does appear to me
8 that this argument is quite valid.

9 DR. CASGRAIN: We would say that they feel
10 that they would not work in a certain income bracket
11 because they are working simply to pay tax. It seems
12 to me that people do not really like to work harder
13 to earn more income if in fact they are going to earn
14 less.

15 I know of no professional people, of course,
16 who will work less because they will pay more in
17 taxation if they were to work more. But this is not
18 always quite true. There are always more left of
19 these people who earn big money and pay high taxes.
20 However, it seems to me that income tax is far too
21 progressive and rises far too steeply. I do not know,
22 but when you pay 80 per cent taxes I think that is far
23 too much. We find, as the doctor here said a moment
24 ago, that 50 per cent taxation on earned income is
25 just about as much as you can cope with, and it does seem
26 to be a pretty good figure.

27 COMMISSIONER CARTER: In order to pay 80
28 per cent one must earn over \$200,000.00, but there are
29 probably very few people in the country who have earned
30 income which goes to that figure. Even with the



1 dividends and the credit advantages it is not likely
2 that the result will be a marginal rate of 80 per cent.
3 There may be a few people who pay that rate but there
4 would not be very many. One pays an average tax of
5 50 per cent with an income of about \$100,000.00. The
6 marginal rate at \$100,000.00 is, I think, 60 or 65
7 per cent or thereabouts. It is not 80 per cent at
8 that kind of level. While I think I would agree that
9 with an 80 per cent rate it must have a pretty
10 striking effect on anyone thinking about it, really
11 the impact is very seldom felt by the taxpayers.

12 THE CHAIRMAN: I see here that to pay a
13 marginal rate of 80 per cent requires a revenue of
14 over \$400,000.00.

15 Now we will deal with the other section of
16 the brief, that dealing with the production period.
17 You have been drawing a comparison here between a
18 psychiatrist and a policeman. Obviously this position
19 is due to the progressive tax rates, and as a result the
20 remuneration of the psychiatrist would rise more
21 rapidly than that of the policeman. Of course, at
22 the beginning of your example you take it for granted
23 that the salary will remain constant both for the
24 psychiatrist and for the policeman over the period
25 under consideration.

26 DR. GEOFFROY: When this calculation was made
27 we took into account the increase in salary of the
28 psychiatrist and that of the policeman. The policeman
29 would rise from \$4,400.00, which was the minimum salary,
30 to a maximum after seven years of \$5,100.00, while the



1 psychiatrist's salary maximum is \$9,000.00.

2 THE CHAIRMAN: That would depend on where they
3 were working.

4 DR. GEOFFROY: They are working for the City
5 of Montreal. Some psychiatrists make more money than
6 that. Some are in specialists fields. But we
7 put an advertisement in the papers, and from that
8 advertisement we planned our calculations. We were
9 speaking of a salary for a psychiatrist, and both
10 advertisements were placed side by side, so that we
11 have the same working conditions and salary conditions.

12 THE CHAIRMAN: Still, it is rather difficult
13 with only \$9,000.00 after seven years if you are a
14 psychiatrist.

15 DR. GEOFFROY: If that were true you would
16 need psychiatrist's care!

17 DR. CASGRAIN: We based our calculations on
18 the advertisement in the paper. We calculated the
19 active working period for the policeman as well as that
20 for the psychiatrist.

21 DR. GEOFFROY: Now, we assume that from time
22 to time we could find people who are content to earn
23 that salary, since the City of Montreal continues to
24 pay that salary.

25 THE CHAIRMAN: Obviously the most brilliant
26 people would not accept such a position as that. The
27 comparison might be a little weak with regard to the
28 psychiatrist's salary.

29 DR. GEOFFROY: However, under present
30 conditions that is all which is required of a



1 psychiatrist from the point of view of specialization.
2 All you are asking of a policeman is Grade 10; you take
3 them at 18 years of age. We feel that over his lifetime
4 the psychiatrist would have earned \$13,000.00 more than
5 the policeman because of the progressive income tax
6 rate. That example was designed to show that in
7 medicine, as well as in other professions, the start is
8 quite difficult. But when you really start to earn
9 something, the remuneration is set high in order to
10 make up for the cost of beginning your career. But
11 because of the high rate of income tax it is quite
12 difficult to find a suitable comparison for the effort
13 involved in acquiring professional proficiency.

14 THE CHAIRMAN: You are putting forward this
15 suggestion. You have said that income varies from
16 year to year. Would you give me more detail on what
17 you mean by three or four periods of active life.

18 DR. GEOFFROY: In medicine, at least, there
19 are approximately three periods. There is the first
20 period of ten years where income increases from just
21 about nil to a maximum of X. Then there is another
22 ten years where the income remains approximately
23 stationary. Then there is another ten year period
24 where it goes down from year to year. I find it hard
25 to say with regard to other professions.

26 In medicine you cannot afford to refuse
27 patients. Once you start that your income will go
28 down. You do not just lose the patient alone, you
29 lose his family, and then other families, and so on.
30 In other words, your income goes down very rapidly. One



1 would have to look to the period when the doctor
2 becomes a little tired, or perhaps ill, and he then
3 reduces his practice and his income goes down perhaps
4 a little faster, or faster than he would have thought
5 it possible.

6 So that if we have three periods, the first
7 period where the first ten years instead of paying
8 nothing the first year and increasing thereafter, if
9 there were an average rate set perhaps a little lower.
10 I think we should have another rate for the second
11 period and then another for the third.

12 THE CHAIRMAN: Do you suggest that this method
13 is true only of the medical profession?

14 DR. GEOFFROY: No; it applies to all
15 professions who begin to earn a lot of money when they
16 are getting along in the manner I have described.

17 THE CHAIRMAN: We have had facts set out to
18 make an argument for the setting of an average rate,
19 but do you not think that this would make for
20 administrative complications? It would be necessary
21 to follow these periods through.

22 DR. CASGRAIN: These periods could be five
23 years, because the status of a doctor is a little
24 special. I know that one of my friends who is an
25 auditor has 18 or 20 accountants working for him at
26 the present time, and I can see no reason why his
27 income should go down. His reputation is increasing,
28 and his occupation is increasing in time. However,
29 a doctor does not really work with his hands; he does
30 his work personally unless he is in an association of



1 doctors, which is exceptional, of course.

2 I think that as the doctor gets older his
3 productive capacity is reduced. His productive
4 capacity goes up until he is 48 or 49 years old, and
5 after that his capacity to answer calls goes down and
6 he feels that he should take things a little easier.
7 That is possibly because he has acquired some wealth,
8 but also because he is getting a little tired.

9 I think a lawyer is not quite in the same
10 class, and neither is an auditor in the same class.
11 We feel that the doctor's case is a case which might be
12 a little peculiar because he works just about alone.
13 I believe the same would be true of the dentist, the
14 surgeon dentist who cannot drag his feet at age 55.

15 THE CHAIRMAN: What about the professional
16 engineer?

17 DR. GEOFFROY: I would say in engineering,
18 in law, in accounting, it is more acceptable, it is more
19 usual. In any case, with associations or companies
20 or large firms there is a chief who is fairly elderly
21 who looks after difficult cases only, the rest of the
22 work being done by younger people who are articled or
23 junior associates but who hope some day to become
24 seniors in the same office.

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1 However, in medicine there have been suggestions made
2 over the years with regard to group practices, but
3 really there is no great hope of success in this
4 method because medicine is a matter of personal contact.
5 Patients prefer being looked after by the same
6 doctor all the time, except of course in some odd
7 cases, perhaps a week-end, over a holiday and so on.
8 A patient does not like to be a mere cipher going
9 from one to another of five or six doctors; he prefers
10 to have his own personal attending physician.

11 THE CHAIRMAN: You say as is done for other
12 classes of taxpayers, such as farmers or fishermen.
13 Does this mean that you suggest that we would have a
14 similar system?

15 DR. GEOFFROY: We are told that farmers
16 calculate their earnings over a three year period.
17 They might have a good crop, a poor crop or a bad crop,
18 so the average is taken over the three year period
19 for taxation purposes. Three years may perhaps be a
20 little short, but if we do find a system for these
21 people and if we have managed to do so, I think we
22 could possibly find a system for these other people over
23 a five year basis, for example.

24 THE CHAIRMAN: Those are all the comments I
25 have on the productive period.

26 COMMISSIONER MILNE: I am not sure, Mr.
27 Beauvais and Dr. Geoffroy, whether or not my thoughts
28 here have been covered in your answers, simply because
29 of this small difficulty with the transistor and such.

30 I have been watching very carefully the income



1 categories and earnings of the professions and groups
2 that you have mentioned, and in the ten year periods.
3 Certainly this small listing that I have in front of
4 me follows very closely with what you have said in the
5 earning periods and the increase and decrease as
6 earning capacity might go up and down through age. I
7 was wondering if you had commented in any way on those
8 groups where the income increases as it goes on, and
9 the groups that I have marked here are those of
10 college professors and instructors, editors and
11 reporters, civil engineers, economists, electronic
12 technicians, mail carriers and postal clerks.
13 According to the schedule I have in front of me, which
14 deals with earnings, their peak is in the 55 to 64
15 group.

16 THE CHAIRMAN: Would you care to comment?

17 DR. GEOFFROY: We are not sure that we have
18 understood the question as well as we perhaps should
19 have.

20 The maximum period of productivity would appear
21 to be between 55 and 64; is that it?

22 COMMISSIONER MILNE: Maximum.

23 DR. GEOFFROY: In medicine, as far as we can
24 see, we do not think that this actually is the case
25 because at 55 years of age most doctors have troubles
26 -- at least, those we know do have. There must be an
27 explanation, of course, for this state of affairs.

28 Do the figures you have include professional
29 revenues, investment income and so on through rents
30 and so on? In other words at 55 or 60 the income must



1 be larger but the better part of his income at that
2 point might come from investment income rather than
3 from professional fees.

4 DR. CASGRAIN: From the professional point of
5 view, this is absolutely certain: Income is reduced
6 from 50 to 55 years of age. The active period goes
7 from between 36 and 37 to 50 years of age. From then
8 on it is reduced.

9 DR. GEOFFROY: And fairly quickly from 55
10 years of age on.

11 DR. CASGRAIN: In hospitals surgeons lose
12 not perhaps their reputation but at least their
13 vitality and their activity when they get older. This is
14 a commonly known fact. Young surgeons come along; they
15 are more specialized; they are more up-to-date with
16 things. These young surgeons do replace the older
17 surgeons. This is a commonly known fact in hospitals,
18 it is a daily occurrence.

19 THE CHAIRMAN: We will now deal with the
20 basic exemption.

21 You feel that the basic exemption should be
22 calculated realistically? Do you think that the basic
23 exemption should be increased, or rather that there
24 should be an increase in other things, such as family
25 allowances and so on? You seem to think in your brief
26 that the basic exemption has been compensated for by
27 increase in family allowances and so on.

28 DR. GEOFFROY: I do not think there has been
29 any compensation here. In fact, this has been rather
30 a poor solution since most people do not have enough



1 to live on and have to ask the government for help and
2 assistance in all kinds of areas -- family allowances,
3 old age allowances, old age pensions, etc. The list of
4 requests to the government for all kinds of purposes
5 of course would be tremendously long. If the non-
6 taxable part of the income were calculated more
7 realistically I believe the demands of the government
8 should be perhaps reduced I believe to some extent. Of
9 course, from the administrative point of view it is
10 always easier to give to everybody, such as in the
11 case of family allowances. If you have a child, you
12 get family allowances and then you pay perhaps a little
13 more income tax after that. But on reflection,
14 government assistance should be given to the people
15 who really need it, not to everybody. People who pay
16 taxes cannot even retain the basic vital minimum since
17 this minimum was arrived at around 1940 to 1941 and has
18 been very little changed since then. We know the
19 cost of living has changed a lot since then.

20 THE CHAIRMAN: What is the vital minimum about
21 which you are speaking?

22 DR. GEOFFROY: The same proportionately as
23 in 1940-41 when we felt a married man was entitled to
24 an exemption of \$2,000.00 a year for support and to
25 pay his rent and for his food. It was felt that the
26 minimum then was for food and board. If this was a
27 strict necessity in 1940-41, this is no longer the
28 case since the cost of living has just about doubled
29 over the years since then.

30 THE CHAIRMAN: In other words, you suggest



1 an increase of the basic exemption to an amount which
2 would be just about a vital minimum?

3 DR. GEOFFROY: Which would be just about the
4 basic minimum necessary for living. Since 1949 we have
5 seen an increase in the cost of living to the extent of
6 3 per cent per annum approximately, and that has not
7 been the case with the basic allowable exemption where
8 taxation is concerned.

9 THE CHAIRMAN: Capital appreciation: you have
10 already dealt with that matter, I believe.

11 Doctor, do you feel that what should constitute
12 capital should be the cost of post-graduate training
13 and that there should be depreciation allowance in
14 this respect, as is the case with machinery or
15 furniture?

16 DR. GEOFFROY: The cost of the whole medical
17 training.

18 THE CHAIRMAN: The whole?

19 DR. GEOFFROY: Post graduate training is an
20 added capital which is already being depreciated.

21 THE CHAIRMAN: Assuming that the doctor has
22 had his course paid for by his father, for instance,
23 do you think the doctor should be allowed depreciation?

24 DR. GEOFFROY: Yes, we do. For example, in
25 the Province of Quebec it was often the case until the
26 last few years that the elder son was trained; he was
27 sent to college; he was sent to university; and the
28 father then said, "You have had your part of the family
29 property." To the next son he left, say, some
30 property. The person who inherited the property



1 continued to enjoy such advantages as could accrue from
2 the depreciation of property until such time as the
3 the property was entirely depreciated. This capital,
4 of which he enjoyed the benefits, came from his parents,
5 yet the same was true of the elder son. His capital
6 was obtained in the way of having his studies paid, yet
7 he will never recover that capital.

8 THE CHAIRMAN: Do you believe this is still
9 the case today?

10 DR. GEOFFROY: This is very often the case
11 today. If studies have been paid for by the government,
12 which of course is not the general case -- attempts are
13 being made to have all studies paid for by the
14 government, but it is not the general case -- there will
15 still be money to be paid over for books and instruments,
16 lodgings and so on. The government will certainly
17 never be able to pay everything. Some students have
18 asking to be paid a salary, but I doubt if governments
19 are quite willing to pay salaries to people who want to
20 go to school.

21 THE CHAIRMAN: I believe you have a great
22 case when the expenses incurred are paid by the
23 individual himself, possibly through a loan and so on,
24 but in the case of an individual such as you have been
25 talking about who inherits a house, for instance, he does
26 not really enjoy such a positive capital asset as the
27 person who has gone to university to become a doctor
28 and who will thereby be enabled to earn a far greater
29 income than if he had inherited a house. Do you think
30 the money paid by the father should be depreciated?



1 Should it be depreciated ^{over} a restricted period of time
2 such as five years rather than in terms of life
3 expectancy of the individual? Here is an administrative
4 problem which could be considerable.

5 DR. GEOFFROY: I do not see why depreciation
6 should not be allowed at 2 or 3 per cent a year, as is
7 the case with a house. It is a rather difficult problem,
8 of course, yet a solution has been found with regard to
9 equipment, machinery and so on where depreciation is
10 10, 20 or 30 per cent. I don't know why a solution
11 can't be found for these problems. I don't know why
12 professionals should not be allowed depreciation on the
13 basis of 2½ or 3 per cent per year if this depreciation
14 is right according to the first few years. If his
15 depreciation would be lower, it should be when income
16 tax is lowest and when income is lowest and your
17 expenses would not be considerable. It would be far
18 better to have income tax highest when taxes are
19 highest.

20 THE CHAIRMAN: You feel it should be based on
21 the life expectancy of the doctor.

22 DR. GEOFFROY: There is difficulty, of course,
23 if we allowed depreciated capital for post-graduate
24 training. Depreciation would be allowed for increased
25 capital rather than for reduced capital. That would
26 have settled the matter of post-graduate training then
27 and there.

28 COMMISSIONER CARTER: What I would like to ask
29 concerns just the restrictions that one would impose.
30 You speak about it as applying to post-graduate training.



1 If one conceded that this was a good principle, why should
2 not it extend to undergraduate training or technical
3 training of all kinds.

4 You have already indicated it should not be
5 restricted to your profession. It would seem to me if
6 the principle is adopted in one sector there is equal
7 reason to spread it beyond, beyond post-graduate
8 training. Can you let me know what your views are as
9 to such restrictions?

10 DR. GEOFFROY: I see no objection to all these
11 people who if education be put on the footing, these
12 people who pay expenses to increase their intellectual
13 capital, I think, should not be penalized. This should
14 not necessarily be limited to the medical profession.
15 It is possible that now these people in technical
16 pursuits should be able to benefit from automation. If
17 it can be proved to people that it is not a loss of
18 time, an attempt to change one's job and work by taking
19 night courses or losing for themselves income that, for
20 instance, would get a better job.

21 If we were able to demonstrate that in this
22 way the capital involved would be recovered, I think,
23 this would be a pretty good solution to the problem of
24 automation.

25 DR. CASGRAIN: On the contrary the improvement
26 of the individual is an economic part of the whole
27 country, generally speaking.

28 We are speaking now of the lack of doctors.
29 I read in the Financial Post that in eight or ten years
30 we will be needing so many thousand doctors more because



1 of increase in population.

2 It is a good thing for a country to have the
3 minimum number of doctors or professionals required.
4 I think it is an economic value to the country.

5 COMMISSIONER CARTER: When asking that question
6 in relation to technical schools, I really had in mind
7 boys and girls of sixteen to eighteen who entered
8 technical school from a fairly low grade. I am not sure
9 just at what stage they enter technical school but they
10 do it. I was thinking about undergraduate courses
11 at the university. I would have thought that the
12 distinction between a commercial course and an arts
13 course is falacious. I would think the arts course
14 would equally enable them to earn a living as does the
15 more technical course and certainly if permitted on
16 more technical courses, it would have to be permitted
17 on more general courses. I think one would very soon
18 find themselves in the position of permitting a reduction
19 of all educational costs from future income, because I
20 think a case could be made equally as well for one kind
21 as the other.

22 DR. CASGRAIN: Certainly, yes, I agree.

23 DR. GEOFFROY: Oh yes, sir.

24 COMMISSIONER GRANT: In putting forward your
25 case that a doctor, for instance, should be able to
26 ammortize the cost of his education through depreciation
27 by deductions from his subsequent income, you are, of
28 course, not overlooking the fact that this would
29 eliminate the exemption which parents now are entitled
30 to for a son who is a student over the age of twenty-one



1 years but still in university.

2 DR. GEOFFROY: I believe that the only one who
3 should be allowed that deduction is the one who has
4 benefitted from the future years and maybe, referring
5 back to the example given at the beginning, speaking of
6 the heritage left by his parents, otherwise there will be
7 difficulties and it will be impossible to find our way
8 out.

9 But, it is important for the economic growth
10 of the country and one should be more interested in those
11 who will be educated. Taxes cannot force one to perform
12 his education. It can only be suggested but the one
13 who wants to be educated, despite all difficulties which
14 might arise, they will always find the possibility of
15 obtaining a loan or some help from the provincial
16 government and whatnot; but those who really want to be
17 educated can always find a way and this should be a way
18 of rewarding them, if we can speak of rewarding, and
19 those are the ones who deserve it more than their
20 parents.

21 COMMISSIONER GRANT: I could not help but think
22 when you were giving your example of the son who had the
23 university education and the son who stayed at home there
24 and was given property to compensate him for the lack
25 of opportunity which was given to his brother; if you
26 would differentiate in the case where there was only
27 one son who got both.

28 DR. GEOFFROY: We are used to thinking of
29 families where there is scarcely very seldom one child.
30 We are talking about families of five or ten children.



1 These cases are so scarce that we can hardly think of
2 them.

3 THE CHAIRMAN: Then we pass to insurance. You
4 suggest that doctors should be allowed deductions from
5 their income tax, from their income, the part concerning
6 the risk for life insurance. First, I would wonder why
7 you suggest this only in the doctor's case.

8 DR. GEOFFROY: For the doctor and professional
9 in general.

10 THE CHAIRMAN: Why not the workers?

11 DR. GEOFFROY: Well, yes.

12 THE CHAIRMAN: For that matter, employees in
13 general should be more entitled.

14 DR. GEOFFROY: This would be a question of
15 not being pushed too much. We are talking about cases
16 we know, a few professionals and doctors, because we
17 are one of them and we have no means of making research
18 and we are thinking that in the case of some workers,
19 they have life insurance paid by the employer. They
20 have hospitalization insurance and medi-care, and that
21 benefit and all that paid or at least three-quarters of
22 it is paid by the employer.

23 Therefore, we did not want to get into a
24 question we didn't know too much about. We are quite
25 prepared to accept -- workers are enjoying a privilege.
26 We don't want to be in a privileged class but we didn't
27 want to talk about those we didn't know too much about.

28 THE CHAIRMAN: But the employers only pay half
29 of the premium of life insurance but that premium is
30 not deductible from income for income tax purposes.



1 Don't you believe that that if losses are accepted for
2 income tax purposes, when the insurance is collected the
3 insurance should be subject to income tax? It is the
4 same thing for pensions. The employee or the professional
5 is entitled to \$2,500.00 deduction for pension purposes
6 but when he gets his pension, the pension is taxable.

7 Therefore, if you ask that premiums be deductible,
8 is it not fair to say that the revenue should be taxed
9 also?

10
11 DR. GEOFFROY: In the same line of thought if
12 one does receive the capital but the insurance is already
13 taxed it is part of the succession. There is also ---

14 THE CHAIRMAN: No, I am talking only about
15 income tax.

16 DR. GEOFFROY: But once one is dead there is
17 no revenue because he is dead.

18 THE CHAIRMAN: But it remains taxable. It is
19 not revenue. It is the taxable amount, if the
20 deduction is granted on premiums.

21 DR. CASGRAIN: You mean if life insurance were
22 deductible, the collection of the insurance at the
23 moment of the death would be taxable.

24 THE CHAIRMAN: I don't mean to say it is
25 taxable but it could be.

26 DR. GEOFFROY: But if a manufacturer has
27 insured his equipment against fire, if there is a fire
28 he gets \$100,000.00, will he pay income tax on the
29 \$100,000.00?

30 THE CHAIRMAN: No, on the depreciation.



1 DR. GEOFFROY: Well, it is the same thing
2 because we can insure that part of the capital which
3 remains to be collected so that when one dies, if he
4 dies before sixty-five years of age, at that point the
5 insurance would cover the preceding capital.

6 THE CHAIRMAN: No, there would be no residual
7 value; while in the case of equipment if there is a
8 residual value, it will be taken into account.

9 The same can be said for a pension. If you
10 have a deduction for payments made to a pension fund,
11 then it is taxable when you get the pension.

12 Therefore, a danger exists that if the
13 suggestion is accepted that ~~the~~ income tax people might
14 consider that revenue, the difference is taxable. I do
15 not mean to say it would be, but it could be.

16 DR. GEOFFROY: Well, anyway since the premium
17 doesn't cost a thing, the individual doesn't pay out
18 much, he would stand a chance to gain something.

19 THE CHAIRMAN: No, I wouldn't say it doesn't
20 cost anything because when you have average income tax
21 of 30 or 40 per cent, you still have 60 per cent left.

22 Then, we will pass to the other section,
23 automobiles. You say it is impossible to buy one-third
24 or two-thirds of a car. Nevertheless there is another
25 means of measuring what is personal and what is for
26 professional use.

27 We must agree, nevertheless, that a doctor
28 or professional person who has a car, part of that car
29 or the car is used partly for his own personal use.
30 In the case of doctors, home visits are being more and



1 scarce. It is no more of a drive between his home and
2 his office or the hospital. Therefore the use of the
3 car for professional use is reduced. Am I right in
4 saying so?

5 DR. CASGRAIN: That is partially true but I
6 won't say it is entirely true. For instance, in rural
7 areas where the doctor uses his car to go to visit his
8 patients at home and in the Province of Quebec, as far
9 as we are concerned, as a group of professional doctors,
10 you do not have the emergency clinics like in Montreal.

11 In the rural areas, the doctor visits his
12 patients at home.

13 THE CHAIRMAN: I have been informed that
14 different rates are granted in rural areas than in
15 cities to doctors ranging from 100 per cent to 50 per
16 cent, I think, in rural areas and that is 100 per cent
17 for the car.

18 However, I believe it is logical that part
19 would be disallowed with regard to the personal needs
20 of the doctor because it exists for all professions,
21 doesn't it, and even in the case of lawyers that have
22 no allowance whatever. In the case of lawyers,
23 accountants, no. I feel then, according to my
24 information that there has been pretty generous
25 treatment allowed under the Income Tax Act with regard
26 to car depreciation.

27 You will admit yourself that this should be
28 a difference. It should be disallowed when you say
29 that expenses with cars should be allowed in proportion
30 to professional use.



1 DR. GEOFFROY: I don't know why it would not be
2 the same thing for depreciation itself, because a car
3 for a doctor is very often advertising. If the doctor
4 has a five year old car it doesn't look too prosperous.
5 Very often the car has depreciated on account of
6 corrosion and rust.

7 When you have to have a car every day to drive
8 to the office and the hospital, the car will depreciate
9 whether you use it or not. So, you absolutely need it
10 to do your job and so you have to change it every so
11 often.

12 If you do not, well, you are damaging your own
13 professional status and if his car doesn't look any
14 better, well, the doctor himself doesn't appear to be
15 any better.

16 Then, the doctor has to trade in his car,
17 not necessarily to please his customers or ---

18 THE CHAIRMAN: You will admit that the
19 depreciation rate allowed is generous at 30 per cent and
20 it is rare that you change your car and lose money on
21 the operation, considering the 30 per cent and the
22 proportion of 75 per cent also applies to the 30 per cent
23 depreciation in a reduced value.

24 However, generally speaking it does seem to me
25 that the depreciation rate is generous enough.

26 DR. GEOFFROY: As a matter of depreciation,
27 there is a tendency to treat one's car according to the
28 specialty. For instance, we are prone to classify a
29 doctor's car to their specialization independently of
30 the peculiar circumstances under which one practices his



1 profession. It may be 50 per cent or 25 per cent. For
2 instance, dermatologists do not need as much. That may
3 be true for certain dermatologists but not for all of
4 them. It seems to me that the tendency is to stand
5 still for the time being but nevertheless there is a
6 tendency to allow expenditure according to the category.

7 THE CHAIRMAN: Would it not be fair to say, I
8 think you will admit that, there is a difference, that
9 a certain part should be disallowed in respect to
10 personal use but that you do suggest, on the other hand,
11 that the allowance rate could be revised upwards or
12 something similar.

13 Now, to go to Succession Duties. You say here
14 in section 20 when he is making his income the state
15 takes part of his income and after his death part of
16 his money goes to pay succession duties. The estate
17 has too often to sell because they have just inherited.

18 A number of briefs have been presented to us
19 where the same remark has been made to us. Do you
20 have examples in your own personal experience? Do you
21 know of any actual cases where such occurrences have
22 taken place?

23 DR. GEOFFROY: Yes. There is a case of a
24 manufacturer of snow blowers in which the industry passed
25 to American ownership because of succession duties
26 difficulties.

27 --

28 --

29

30 --



1 It is thought that there would not have been so much
2 difficulty if the industry began within the family; but
3 no member beyond the family was interested in the
4 concern because it was under American ownership.

5 THE CHAIRMAN: Do you suggest the abolition of
6 the Succession Duties Act or the Estates Tax Act?

7 DR. GEOFFROY: No, we would not abolish it.
8 But there again maybe we are going too far. We think
9 that all these things have not been thought over enough.
10 As soon as the government needs money to fulfill certain
11 electoral promises, he searches around to see where he
12 can get some money. It may happen that we do not always
13 listen to good sense. It may be that the rich are
14 helping more to develop the country and the only way in
15 which individuals can help, if you are starting from
16 scratch and if one can start from \$500,000.00 or \$1
17 million, then he is in a better position than the other.
18 It is quite different with those who have large
19 estates. Then grants for research and so on also help.
20 Our society cannot develop all industries.

21 THE CHAIRMAN: This Foundation has been set up
22 to help prevent paying succession duties. That might
23 be an advantage, at least in that sense. However, do
24 you not find that the small fellow ought to be protected,
25 that the small estate should be protected? I mean the
26 small estate of a widow with a child. I think that
27 some thought should be taken of them rather than of the
28 richer people. For instance, some thought should be
29 given to not capitalizing the estate of a widow. Do you
30 not think that is important? Your brief does not mention



1 that point. You speak of large concerns, but it seems
2 to me that it is more important for us to consider
3 small estates. After all, we do have an exemption of
4 \$60,000.00 at the present time, but in the Province of
5 Quebec the exemption is only \$10,000.00. I think we
6 should be moving in that direction rather than in any
7 other. What do you feel about that, Dr. Casgrain?

8 DR. CASGRAIN: This proves our incompetence.
9 I just cannot tell, Mr. Beauvais. I would be ready to
10 admit that we did feel we should protect the widow and
11 the orphan. Too many widows have to work during their
12 lifetime. I have personal knowledge of a case of an
13 accountant who died. His widow has to rent rooms and
14 to work in a hospital as a secretary in order to live.
15 That is one very unfortunate case.

16 THE CHAIRMAN: Now, the last item concerns
17 sources of revenue. You say that to compensate for
18 any loss there should be more numerous direct taxes;
19 that certain of these taxes existed in former times in
20 Canada and are still in existence in a number of
21 European countries. I do not quite understand the tax
22 to which you are referring there.

23 DR. GEOFFROY: We were thinking of taxes which
24 used to exist such as those on cheques, excise duty
25 on receipts, stamps, and so on, which are undoubtedly a
26 great source of revenue. For instance, in England they
27 have to pay for a stamp on a cheque, and even on
28 certain receipts. If there were a great number of
29 cheques and receipts being passed in a given country it
30 would be quite an interesting source of revenue. I do



1 not remember this because I was too young, but I think
2 there was a certain tax placed upon small cheques, and
3 the rate would increase as the value of the cheque went
4 up. But since everything is done by cheque, and even
5 receipts are given, it would be quite easy to get
6 revenue from sources which would not hurt anybody,
7 especially when you have a cheque where you have to pay
8 a little more or less and you get a receipt.

9 DR. CASGRAIN: There is more to it than that.
10 Personally, I find it a very fair thing because people
11 of modest income can prevent having to undergo that
12 type of expense with stamps on cheques. People with
13 small salaries can pay their telephone bill with cash,
14 can pay their rent in cash, and so on. They do not
15 have to use a cheque. Therefore, this tax can be
16 prevented to some extent. However, the large industries
17 will have to pay that tax when they issue a cheque.
18 I think there is some element of fairness in this in
19 that the small people with small incomes can escape
20 the necessity for paying this tax, at least to a
21 considerable degree. The stamp on the cheque does not
22 have to be paid for by everybody.

23 THE CHAIRMAN: Do you feel that that exists in
24 many countries in Europe?

25 DR. GEOFFROY: It is certainly true in the
26 United Kingdom.

27 THE CHAIRMAN: That is what you mean when you
28 talk about other European countries, is it?

29 DR. GEOFFROY: It can exist in other countries
30 too. As we said at the outset, we did not carry out an



1 extensive survey of this matter, but I do know that in
2 the United Kingdom -- because we have been there -- they
3 kept that tax and we feel that it is not such a bad idea
4 afterall.

5 THE CHAIRMAN: They are all the questions we
6 have to put to you gentlemen. I will now pass the
7 microphone over to our Chairman.

8 COMMISSIONER CARTER: Gentlemen, you have been
9 very useful to us and we thank you. That is all the
10 questions we have to put. Do you have anything you
11 wish to add to what has already been said?

12 DR. CASGRAIN: We wish success to the
13 Commission.

14 COMMISSIONER CARTER: Thank you. We will now
15 recess for ten minutes.

16 ---A short recess.

17

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SUBMISSION OF THE MONTREAL POLICE
WELFARE AND PENSION ASSOCIATION

21

APPEARANCES:

Mr. Jean-Paul Lapointe
Mr. Roger Lavigueur
Mr. Marcel Lafontaine, Q.C.
Mr. Jean-Guy Menard
Mr. George C. Lachance

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COMMISSIONER CARTER: Mr. Secretary, we will
now proceed.

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THE SECRETARY: Mr. Chairman, Commissioners.
The second brief this morning is being presented by the
Montreal Police Welfare and Pension Association.
Monsieur Jean-Paul Lapointe, President of the Association,



1 is here together with his colleagues. He will introduce
2 those people who are with him and will be saying a few
3 words in opening his remarks prior to the questioning
4 on the brief.

5 Mr. Chairman, I should like to enter this
6 brief into the record as Exhibit No. 292.

7
8 ---EXHIBIT NO. 292: Brief of the Montreal
9 Police Welfare and
Pension Association.

10 COMMISSIONER CARTER: Thank you, Mr. Secretary.
11 Good morning, Monsieur Lapointe and gentlemen. I will
12 now ask my associate, Mr. Beauvais, to act as Chairman
13 this morning because we want to conduct the proceedings
14 in French and I prefer to have a person who is French-
15 speaking preside.

16 We have with us this morning translation
17 equipment which is extremely simple and works very well.
18 However, if we speak only in one language and do not
19 move too quickly from one language to another it would
20 be of assistance. Mr. Chairman.

21 THE CHAIRMAN (Mr. Beauvais): Thank you,
22 Mr. Chairman. Good morning Mr. Lapointe. Could I ask
23 you to present your colleagues. I believe you have a
24 few remarks to make also.

25 MR. LAPOINTE: Mr. Chairman and gentlemen.
26 I thank you for this opportunity which is given to us
27 to present the point of view of the police officers of
28 our Association and the problem which is of general
29 interest. I will introduce my colleagues. To my
30 right is Sargeant-Detective Roger Lavigueur, who is



1 Vice-President of our pension fund. To my immediate
2 left is Detective-officer Jean-Guy Menard, who is the
3 director of the Benevolent Association. Mr. Lafontaine
4 is our legal adviser.

5 Before proceeding with my remarks, Mr. Chairman,
6 I should like a correction to be made to our brief. Our
7 legal adviser, Mr. Lachance, the Hon. Member for
8 Mercier, was here a few months ago and he has called my
9 attention to the fact that the exemption has been
10 changed from \$50,000.00 to \$60,000.00 lately. You will
11 note that throughout the brief we are speaking of the
12 basic deductible amount of \$60,000.00, but I do not
13 believe that that will change the value of our
14 argument. However, having been informed of the fact I
15 thought it would be a good idea to change this figure.

16 At the outset I will explain what the
17 Association appearing before you today is. The
18 Police Benevolent and Pension Society is actually the
19 pension fund for the Montreal Police Force. It is an
20 autonomous pension fund which was founded in 1892 by
21 the policemen themselves. It belongs to them. It is
22 administered by them and the City of Montreal delegates
23 two directors because they are participating in its
24 income. This pension fund now includes 3,092 active
25 members of the Montreal Police Force, 530 pensioners and
26 52 widows.

27 The main purpose of this fund is to provide
28 for a retirement fund for superannuating policemen. It
29 also assists those who have to leave the police force
30 owing to accident, and also it protects widows and



1 orphans of policemen whether the policeman died in line
2 of duty or from natural causes.

3 The subject we are dealing with before the
4 Commission today deals simply with the capitalization of
5 widows' pensions. We are going to argue in our short
6 brief two problems. We are making a distinction between
7 the widow of a policeman who dies in line of duty and
8 the widow of a policeman who dies from natural causes.

9 First of all, I will deal with the question
10 of a policeman who dies in line of duty. We feel that
11 the arguments used for policemen in general can be
12 applied to the case of those widows. Moreover, we ask
13 you to take into consideration the analogy, which we
14 can certainly draw in the Act, by considering them
15 perhaps as soldiers who die in action. According to our
16 regulations the widows of soldiers who die in action
17 can enjoy that pension without the pension being
18 capitalized. We feel that the policeman who dies in
19 line of duty protecting lives and property should be in
20 the same position as the soldier who dies in action so
21 far as the protection of his widow and orphans is
22 concerned.

23 I believe that this consideration should
24 attract your attention, and this argument has been set
25 out fully in the brief. You might wonder here whether
26 the people concerned are a privileged class. I will
27 answer that by saying that the policemen should be
28 richer dead than alive. Our policemen do feel it
29 necessary that they protect their widows and orphans,
30 and a system of insurance has been set up which provides



1 a widow with a capital which is far superior to that
2 which she could have enjoyed during her husband's
3 lifetime at times. Our pension fund also lends money
4 to each of its 25,000 members. Each of these loans
5 is insured, so that if a policeman dies the Association
6 has insured the loan which is made to any of its
7 members.

8 We are officers of the pensions fund as well
9 as policemen of the union. Mr. Lavigueur is Director
10 of the union. They also have insurance which pays
11 benefits on the death of the policemen.

12 THE INTERPRETER: I am very sorry, but it is
13 impossible to hear the witness.

14 THE CHAIRMAN: I am afraid that the
15 interpreter cannot hear, Mr. Lapointe. If you will
16 sit down you will be speaking more directly into the
17 microphone.

18 MR. LAPOINTE: My point was that the system
19 of social security which has been established was
20 established because of the necessity, more than in the
21 case of other citizens, for protecting the widows and
22 children. This system grants a capital to the widow
23 which goes beyond the amount that is not deductible.
24 His mortgage is paid for by his union insurance and
25 because of the capitalization a very high estate tax
26 has to be paid. The capitalization of the widow's
27 income then is an exaggerated asset because it is an
28 asset which the policeman cannot enjoy throughout his
29 life. The policeman takes one per cent out of his
30 salary for a special fund. We already have 52 widows



1 paid out of that fund. The policeman pays one per cent
2 of his salary and we have paid over to the widow a
3 pension in the case of the death of the policeman which
4 is equal to one-half of his own pension credit with a
5 minimum figure of \$1,300.00 for the widow and \$300.00
6 per child.

7 In practice, it is only after twenty years of
8 service that the policeman will have a pension credit
9 which is sufficiently high to pay the widow more than
10 \$1,300.00. From one to twenty years of service it is
11 approximately \$25.00 weekly plus \$300.00 a year per
12 child.

13 I would like to call your attention, Mr.
14 Chairman, to the fact that in Montreal the welfare
15 service grants \$140.00 per month to an indigent widow.
16 You have, then, people who put money aside, who put
17 money in a fund, who take into account the future welfare
18 of a widow, and then suddenly they begin to wonder
19 whether they have been doing things properly, they wonder
20 whether the sacrifice is really worthwhile because this
21 pension is capitalized.

22 THE CHAIRMAN: I am sorry to interrupt you,
23 Mr. Lapointe, but will you speak a little more slowly.

24 MR. LAPOINTE: I mentioned the fact that
25 generally speaking the pension is \$1,300.00 per year,
26 but when it is capitalized it represents a sum according
27 to our actuarial analysis of a minimum of \$25,000.00
28 which means that ~~it~~ changes my figures to some extent.
29 In our original brief I said that the one-tenth had
30 half disappeared. In this way, it is \$60,000.00 but



1 \$42,000.00 of the exemption goes into the capitalized
2 pension fund. To pay the tax, a widow has to mortgage
3 her property once more. Her global income, which we
4 have analyzed, is approximately \$3,000.00 a year. The
5 income from her property has to serve to bring up her
6 child, and this is only \$3,000.00 per year. She has
7 to mortgage her property to pay the tax.

8 It is for that reason that we submit the
9 pension drawn by this widow should be considered as
10 income and should not be capitalized for income tax
11 purposes. Of course, if the widow has other income, she
12 should be taxed as any other citizen, but a pension of
13 \$25.00 or \$30.00 a week for a widow is a very low figure
14 indeed; it is a minimum figure and it is lower than
15 what is paid by the Montreal Welfare office.

16 For all these considerations we would ask you
17 to consider that the pension should not be further
18 capitalized but that it should be considered as income.
19 Of course, a number of people will claim that it is a
20 form of insurance, but I say no, it is not really. It
21 cannot be liquidated; it has no re-sale value; it has
22 no loan value; the law says that it cannot be seized,
23 that it is simply an alimentary pension. This pension
24 cannot be touched to pay the tax, so to pay the tax her
25 other property must be mortgaged.

26 I will sum up. We say the succession is given
27 an exaggerated value. This pension cannot be obtained
28 immediately; it is not even sure that the pension will
29 be drawn completely. This is a minimum figure, and it
30 should be considered as an annual income rather than as



1 income for succession duty purposes.

2 I am ready, Mr. Chairman, to answer any
3 questions which might be put to us.

4 THE CHAIRMAN: Thank you, Mr. Lapointe. I
5 believe we have a few questions to ask.

6 If I understand correctly, there is more
7 than one point in your brief. First of all, you talk
8 about the exemption and you also talk about the
9 capitalization of the pension to the widow, and you
10 establish a distinction between the widow of the
11 policeman who died in the course of his duty and the
12 widow of the policeman who dies through natural causes.

13 MR. LAPOINTE: First of all, the policeman who
14 pays one per cent accumulates a certain capital, a
15 certain amount. Then after that accumulation, it is
16 taxed for succession purposes. There is some subsidy
17 there that goes to the family and to the widow and the
18 succession receives a certain amount.

19 THE CHAIRMAN: I do not know if there is a
20 guarantee of 5 or 10 years or if the pension stops at
21 the death or remarriage of the widow.

22 MR. LAPOINTE: I have quoted in my brief a
23 case. In the case of a constable who died, he actually
24 had \$12.00 income tax exemption and yet he had to pay
25 a tax on \$25,000.00 -- this was a young widow, of course,
26 one per cent of his salary of \$4,400.00 -- he had
27 \$44.00 in exemption and I do not think he saved more
28 than \$12.00 income tax.

29 THE CHAIRMAN: It is striking to see the
30 capitalization of a pension at \$26,000.00, but if the



1 exemption would be increased, would it not cover your
2 point?

3 MR. LAPOINTE: Obviously we would be
4 satisfied with some solution. We do feel that the
5 pension itself should be considered as an income.

6 You said a moment ago that I had drawn a
7 distinction between the widow of a policeman who died
8 while on duty and the widow of a policeman who died
9 through natural causes. I do that because I look at
10 the case of the soldier who dies in action and I find
11 there is some special consideration given to him. I
12 believe an analogy can be drawn; both have given their
13 lives for the protection of the lives and property of
14 their fellow citizens. You could then say that this
15 should be an exceptional case. I say this should be
16 an exceptional case. We consider that widows of
17 policemen who die in the course of duty should be
18 considered as exceptional cases.

19 In speaking as a representative of the
20 policemen I should say that each of the married
21 policemen will be faced with a problem at some time,
22 but the same can be said of other groups.

23 THE CHAIRMAN: The same can be said of firemen
24 and others.

25 MR. LAPOINTE: We are not asking any favours
26 for ourselves, but in the case of our policemen dying
27 while in the course of duty we feel that some
28 consideration should be given.

29 THE CHAIRMAN: In the case of another solution
30 where we have the capitalization of a pension, have you



1 thought in regard to the possibility of having the
2 payment of the succession duty, of the life expectancy
3 of the widow, for example?

4 MR. LAPOINTE: That is another factor I have
5 not dealt with because our suggestion is quite complete.
6 We ask that no capitalization at all be made. But
7 from here on I feel I can share your views. There might
8 be other solutions which might not be quite as
9 satisfactory but which might have some merits. I know,
10 of course, that if the widow remarries before four years
11 the income is remitted. After that it is not remitted.
12 If the widow pays for four years so many dollars per
13 year and she marries after the fifth year ---

14 THE CHAIRMAN: This would also apply after
15 four years.

16 MR. LAPOINTE: After four years there is a
17 reversal.

18 THE CHAIRMAN: Do you know that in the Province
19 of Quebec we do not capitalize the pension of the
20 widow?

21 MR. LAPOINTE: Yes, I am aware of that; there
22 is no capitalization. I dealt with the several estates
23 of one of my colleagues, Captain Soucis, who died after
24 fourteen years, and there is no capitalization.

25 THE CHAIRMAN: The exemption is lower.

26 MR. LAPOINTE: The exemption is lower, of course,
27 on our side.

28 COMMISSIONER WALLS: The only question I have
29 is this. I was wondering whether a mistake had been
30 made where you say that your police fund will loan



1 mortgage loans to the policeman for \$25,000.00.

2 MR. LAPOINTE: Yes.

3 COMMISSIONER WALLS: Under the national
4 housing administration it is two-thirds valuation; that
5 means they would be handling houses of \$37,000.00 which,
6 with all due respect to the police force in Montreal,
7 I question they could afford.

8 MR. LAPOINTE: This is a rather unique loan
9 plan. It was approved by the provincial legislature
10 because we operate under provincial charter. We lend
11 our members up to 90 per cent of the actual value of
12 the house. This might seem surprising, but I could
13 provide you with explanations.

14 For example, say we lend \$25,000.00 on the
15 property. If it is a \$28,000.00 property, we will have
16 taken into consideration one fact. Our member, for
17 example, say my colleague here who has thirteen or
18 fourteen years service, has put into the pension fund
19 over the last fourteen years eight per cent of his
20 salary. He has an equity there of \$5,000.00 or \$6,000.00.
21 He has been lent the \$25,000.00.

22

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1 If we compare the risk we are taking, we do not
2 take as great a risk as Central Housing and Mortgage
3 because there is an equity there of \$9,000.00 or
4 \$10,000.00, because we put a clause that under the Act
5 if the policeman leaves the police force, his contribution
6 -- his accumulated contribution is deducted from his
7 mortgage, unless the mortgage cost is very small.

8 We have \$12 million mortgage loans which have
9 been paid out to our members since 1955. We have loaned
10 \$18 to \$20 million to our members. We have not lost a
11 single cent. Payments are being made according to our
12 understanding that this was in Montreal, deducted from
13 the salary and paid into the pension fund, which is
14 administered by a trustee.

15 In this case the policeman or retired
16 policeman gets his premium of one per cent. If he is
17 fired, of course, he doesn't have that. The premium to
18 his mortgage is reduced by \$5,000.00, \$6,000.00 or
19 \$7,000.00. The experience has been very happy in this
20 connection. It is set by the provincial government and
21 the City of Montreal in fact enforces this for our other
22 employees, that is the white collared employees, because
23 the city administers these pension funds, and this has
24 had good success.

25 We feel that this would not be done for a
26 young member who has come in yesterday and has paid
27 over \$50.00 into the pension fund. We would loan it in
28 addition to the accumulated value of the policy.

29 COMMISSIONER WALLS: Would not any consideration
30 be given to the ability to pay, because the interest



1 alone on a loan of that kind would be somewhere in the
2 neighbourhood of about \$1500.00 a year, and if he was
3 going to pay for principal as well as interest, how
4 could he do it?

5 MR. LAPOINTE: It is not a single dwelling
6 unit. He would not be paying \$25,000.00 a single dwelling
7 unit. Our board studies the income accruing from the
8 property so that the total rent which the policeman must
9 be should not go beyond \$100.00 per month, including
10 capital, interest, taxes and insurance. They must not
11 go beyond \$100.00.

12 This is because at the present time with the
13 help of the federal government and its winter works
14 program, we have just contracted for \$2 million more to
15 our members, which is \$4 million this year.

16 The original cash comes almost entirely from
17 the policeman.

18 With \$28,500.00 a policeman bought four houses
19 and the federal government will get \$2,000.00. He
20 pays \$1500.00 down. He has a loan of \$5,000.00. He
21 already has an asset in the pension fund of \$7,000.00.

22 In any event, I would call your attention to
23 the fact that the yield on our portfolio has gone from
24 3 per cent in 1953, when we got in, to this year it is
25 5.15 per cent, and these mortgage loans, which are the
26 best type of loan, has made it possible for us to
27 increase the yield. So, our experience has been very
28 good in this regard.

29 COMMISSIONER WALLS: One other matter. I
30 notice that with the pension capitalized at \$26,000.00



1 and the balance of the estate at \$50,000.00, making
2 \$75,000.00, as you have indicated, a rough figure of
3 \$25,000.00, you stated that the widow would only have an
4 income not exceeding \$3,000.00 and that is based on the
5 fact, is it not, that she would just draw the interest
6 on the \$50,000.00? In other words, she would not have
7 the benefit of the pension, both principal and interest,
8 which would bring her in a much larger income than
9 \$3,000.00 a year.

10 MR. LAPOINTE: At the outset, she will have
11 the income from her property. As a rule, these houses
12 will bring in a certain income. She will possibly
13 have at the end \$17,000.00 in actual property or her
14 building. I assume she will invest to get \$3,000.00.

15 We have 52 widows and we have found only two
16 of whom are in difficulties and who have been assisted
17 through assistance funds which we have set aside for
18 that purpose.

19 We have found where a policeman is in real
20 difficulty, if he is sick or something, he will be
21 assisted until he can go back to active service. This
22 fund is used to help widows because we have some widows
23 who are in very real difficulty, if you take into
24 account the cost of living, even if her income is a
25 little over \$3,000.00.

26 Very few of them are in that case. It is
27 the exception rather than the rule.

28 As you know, these widows will not speculate
29 too much with the residue of their money which comes
30 from insurance and so on. Generally speaking they are



1 pretty conservative, in experience in investments. They
2 will look for a great deal of security with a small
3 yield.

4 \$10,000.00 in bonds, for instance, doesn't
5 bring you a great deal of income.

6 You could assume that in this estate there is
7 a house of \$25,000.00 with the effects, furniture and so
8 on have been valued at \$25,000.00 which is not exorbitant,
9 which gives \$50,000.00 so there is a \$20,000.00 equity
10 left but this \$20,000.00 equity doesn't bring too much
11 to the widow.

12 It doesn't bring her much more than \$800.00 or
13 \$900.00 because she is not too wise in her investment.

14 Generally speaking, they have to pay out their
15 capital to pay for their children which reduces the
16 actual revenue.

17 COMMISSIONER WALLS: I have no further questions.
18 I would like to congratulate the Montreal Police Welfare
19 and Pension Association for the way they look after
20 their members. I think you have done an awfully good
21 job.

22 MR. LAPOINTE: Thank you.

23 COMMISSIONER CARTER: This is indeed what I
24 had intended to say as well. It is a very remarkable
25 story that you have put to us, an interesting and good
26 story.

27 You have made a case, I think, for the need
28 for appropriate exemption. You put it to us possibly
29 that if it were increased from \$60,000.00 to \$75,000.00
30 your requirements will be taken care of. I just want to



1 be sure of that.

2 You have mentioned alternatives but dealing
3 solely with the exemption matter, may I be assured that
4 in your opinion \$75,000.00 would be an appropriate
5 exemption to take care of the claims with which you are
6 familiar.

7 MR. LAPOINTE: Taking into consideration,
8 Mr. Chairman, that there is also another exemption with
9 respect to children -- I did not discuss this in the
10 brief. Taking into account there is an exemption with
11 respect to dependent children, I believe that under the
12 circumstances this would, of course, help the matter.

13 COMMISSIONER CARTER: Thank you very much.

14 THE CHAIRMAN: Would you rather have no
15 capitalization of pensions?

16 MR. LAPOINTE: I think it should not be
17 capitalized because it is not real capital.

18 THE CHAIRMAN: Your answer is "Yes"?

19 MR. LAPOINTE: Yes. It is "Yes" obviously.
20 If through another type of regulation you achieve the
21 same results, of course, that might be all right.

22 THE CHAIRMAN: Here is another solution
23 possible.

24 MR. LAPOINTE: Another result, relief for the
25 widow, that would be all right because what we are
26 looking for is help for the widow, obviously.

27 COMMISSIONER GRANT: On page 8 of your
28 submission you have mentioned that the pension paid by
29 the city is not capitalized, which is, of course, the
30 City of Montreal. I would judge that it is not



1 capitalized under the Quebec Succession Duty Act but I
2 believe it will be capitalized under the Estate Tax Act.

3 MR. LAPOINTE: It is a fact, as far as I am
4 concerned, it is not capitalized. It is a municipal
5 regulation and in the past, long before my time, there
6 must have been some agreement with the federal government
7 that it is not capitalized.

8 THE CHAIRMAN: Mr. Grant asked you to confirm
9 the fact that the pension paid by the City of Montreal is
10 not capitalized for succession duty but the Province of
11 Quebec does not tax the succession ---

12 MR. LAPOINTE: There is no succession duties
13 in the Province of Quebec. I will confirm that. Yes,
14 that is true.

15 THE CHAIRMAN: Precisely. When you cannot
16 dispose of part of the whole of the pension, in your case,
17 I do understand it has been accessible. Does that
18 answer your question?

19 COMMISSIONER GRANT: Yes. I have another
20 question I want to ask.

21 While you are asking for a higher exemption,
22 would your needs be met if, in the absence of the Act
23 being amended so as to grant higher exemptions, that
24 the police officers were included in the classification
25 which is now allowed under the Estates Tax Act to members
26 of Her Majesty's Naval, Army and Air Forces in so far
27 as loss of life incurred while the officer was in the
28 course of his duty.

29 MR. LAPOINTE: It is for that reason that we
30 have subdivided the problem into parts. In one case I



1 was dealing with wives. I was dealing with policemen's
2 widows in the same case and in the other case I was
3 speaking of widows of those policemen who died of
4 natural causes.

5 However, the exemption of the widows of those
6 policemen who died in the line of duty, that would not,
7 of course, be the case of widows of those policemen who
8 died of natural causes. There still would be a problem
9 as long as the exemption is not raised.

10 On the one hand, you have perhaps a total
11 exemption for one group but the widow of a policeman
12 who dies on duty, the amount I believe, of the capitalized
13 pension is generally lower than the capitalized amount.
14 I will tell you why.

15 The City of Montreal pays a pension. We pay
16 the difference. It is three-quarters of the salary.
17 We do not have to take any part in the decisions of the
18 City of Montreal. The City may be very generous in
19 some cases and some cases we have to compensate for the
20 difference and that pension is capitalized in the case
21 of a widow of a policeman who dies on duty.

22 COMMISSIONER PERRY: Mr. Lapointe, how many
23 deaths in a year would there be in the line of duty in
24 the Montreal Police Force?

25 MR. LAPOINTE: I will tell you, very, very few.
26 I will tell you why.

27 We have more than 500 policemen who are
28 wounded or injured on duty. This I am speaking of
29 major wounds or injuries who do not require hospitalization.
30 Medical services are far more advanced. We have



1 policemen who are shot in the body, who have their
2 livers shot away and are still alive today.

3 The medical services are far more advanced
4 today and far fewer policemen are dying. More, of course,
5 become invalided. We have more invalids but they do
6 survive.

7 If a policeman is not killed on the spot there
8 is a fairly good chance for him to survive. Five
9 minutes after this he is on the operation table and the
10 surgeon is looking after him. The chances of death
11 are reduced.

12 COMMISSIONER GRANT: Of course, the provisions
13 of the Estates Tax Act, as it now reads would cover the
14 case of a policeman who was injured or suffered a gun
15 wound as a result of carrying out duties and who had
16 gone on pension and died twenty years later.

17 MR. LAPOINTE: Yes. In that case. The same
18 thing would be applied by Montreal. It could be proved,
19 in any case, he has actually died as a result of his
20 injuries. If a policeman is wounded and dies next
21 month or dies in the hospital he should be considered
22 as having died in the line of duty.

23 It would be a little difficult to prove it
24 if he died several years afterward.

25 COMMISSIONER GRANT: Not if he were receiving
26 a pension. That would be the test.

27 THE CHAIRMAN: Have you any further questions?

28 I believe that we do not have any further
29 questions to put to you. Have you other problems to
30 offer?



1 MR. LAPOINTE: The only thing we have to
2 offer is we hope your Commission will take this report
3 into consideration.

4 THE CHAIRMAN: Mr. Lapointe, your report has
5 been very sympathetically received.

6 COMMISSIONER CARTER: Thank you very much
7 for your brief. We were impressed by your presentation
8 but I cannot say what we are going to suggest in our
9 report. I thank you very much for your help. It was a
10 real pleasure for us.

11 Mr. Secretary, have you anything for us?

12 THE SECRETARY: Nothing more, Mr. Chairman.

13 THE CHAIRMAN: We will stand over until
14 tomorrow morning at 9:30 o'clock a.m.

15 ---Whereupon the hearing adjourned.

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ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT
OTTAWA

ONT.

VOLUME No.:

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ROYAL COMMISSION ON TAXATION

Proceedings of hearings held before
the Royal Commission on Taxation in
the Supreme Court of Canada Building,
Ottawa, Ontario, commencing at 9:30
a.m., on Wednesday, January 8, 1964.

COMMISSION:

MR. KENNETH LEM. CARTER -- Chairman

MR. J. HARVEY PERRY

MR. A. EMILE BEAUVAIS

MR. DONALD G. GRANT

MRS. S.M. MILNE

MR. CHARLES E.S. WALLS

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RESEARCH DIRECTOR:

PROF. D.G. HARTLE

SECRETARY:

MR. G.L. BENNETT



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* * * * *



1 ---The hearing commenced at 9.30 a.m.

2
3 THE SECRETARY: Mr. Chairman, Commissioners,
4 this morning the first brief is to be presented by
5 the Retail Council of Canada. Mr. A. Y. Eaton,
6 together with a number of his colleagues, is here
7 this morning. Mr. Eaton wishes to make a few
8 introductory remarks, and I would therefore like
9 to introduce him to you and to enter his brief
10 into the record as exhibit 293.

11 ---EXHIBIT NO. 293: Brief of Retail
12 Council of Canada.

13 THE CHAIRMAN: Thank you.

14 Good morning, Mr. Eaton, gentlemen; we
15 are glad to see you. You have given us the most
16 interesting submission which we have all read, and
17 we would like to address some questions to you.
18 Before doing so I would be grateful if you would
19 introduce your colleagues. For my part, I will
20 introduce the Commissioners. Mr. Perry will be
21 a few minutes late.

22 If you would like to make any introductory
23 remarks, we will be glad to hear them. No useful
24 purpose would be served, I think, by reading the
25 brief.

26 Sometimes we use counsel in these matters,
27 depending upon the technical aspects of what is
28 put before us. This morning we have asked our
29 counsel, Mr. Stewart, to lead the questioning, and
30 we hope you will not object to that in any way. It



1 seems to us that it rather improves the examination
2 and it certainly does not exclude us from asking
3 questions -- instead of receiving questions from six
4 people you have them from seven.

5 We would be very glad to hear anything you
6 would care to say.

7 MR. EATON: Mr. Chairman, I would like to
8 thank you for the opportunity of appearing before
9 you and to introduce my colleagues on this delegation.
10 On my far left is Mr. F. S. Mallett of Clarkson,
11 Gordon & Company, Toronto. Next, we have Professor
12 J. V. Poapst, School of Business,
13 University of Toronto; Mr. M. Reid, General Manager
14 Corporate Planning, Simpsons-Sears Ltd.,
15 Mr. McKichan, General Manager of the Retail Council;
16 Mr. I. C. Pollack, Managing Director, M. Pollack
17 Ltd., Quebec, Que., and Mr. D. E. Knechtel of
18 T. Eaton Company Limited.

19 I would like just to make a very brief
20 statement to you, Mr. Chairman.

21 The Retail Council of Canada represents
22 businesses carrying on over thirty per cent of the
23 nation's store trade. Most of the major department
24 and chain store organizations are counted in its
25 membership, but its sponsors are by no means limited
26 to this category of retail business. It has members
27 in all except the smallest volume of classification,
28 and in almost every specialized type of retail
29 activity. The majority of its members were
30 formerly direct members of the Canadian Retail



1 Federation. The latter body is now inactive.

2 The Council believes there is no necessity
3 to remind the Commission of the significance of the
4 retail industry within the national economy.

5 Between them the members of the Council
6 provide jobs for a considerable percentage of the
7 nation's labour force. They are themselves sub-
8 stantial consumers of goods and services, pay a
9 significant proportion of the nation's taxes, while
10 the industry's sales volume is perhaps the most
11 sensitive and significant of all economic indicators.

12 It has been suggested in some quarters
13 that a substantial reduction in income tax could be
14 achieved by increasing commodity tax revenues. The
15 Council believes that the disadvantages of commodity
16 taxes, particularly their aggressive and uncertain
17 nature, militates against a switch of personal and
18 corporate to these forms of tax.

19 In taking this view, the Council does not
20 wish to convey the impression that it is opposed to
21 a reduction in corporate and personal rates. Indeed,
22 in our submission we have explained the means by
23 which we believe a reduction in corporate rates
24 and a selective reduction in personal rates could be
25 achieved.

26 The Council also believe it would be
27 unfortunate if the present manufacturers' tax
28 were to be transferred from the manufacturers' level
29 to the whole/^{sale} or retail level. It believes that such
30 a move would increase problems or reinforce them.



1 The pressures for exemptions would be harder to
2 resist. The grant of more exemptions would require
3 the imposition of significantly higher rates.

4 The Council believes that disadvantages
5 inherent in manufacturers' sales tax have been
6 exaggerated. In our submission we have dealt at
7 some length on sales taxes. They are a form of
8 tax about which the industry feels it has particular
9 knowledge.

10 The Council felt the Commission would also
11 wish to hear views -- and the Council certainly wishes
12 to express its view -- on other aspects of our taxation
13 system. We have included in our submission some
14 general comments on the Canadian tax system, and
15 we have specific comments to make concerning tax
16 administration, tax incentives, corporate and personal
17 tax rates, estate taxes, taxation of co-operatives,
18 and capital gains taxes.

19 This is the first time representatives of
20 the Council have appeared before a public body since
21 its formation. We are privileged in being able to
22 make such an appearance before a body whose recommen-
23 dations are likely to have such far-reaching and
24 important effects on the prosperity and fiscal health
25 of this country in the future. Meanwhile, we
26 hope our Party will be able to supplement the
27 Council's written submission and help to further the
28 work of the Commission.

29 All of which is respectfully submitted.

30 I would like to ask Mr. Pollack at this



1 moment to say a few words.

2 THE CHAIRMAN: We would be glad to hear
3 Mr. Pollack.

4 MR. POLLACK: Monsieur le President, Madame
5 et Messieurs les Commissaires. J'ai l'honneur de
6 représenter aujourd'hui le conseil Canadien du Commerce
7 de détail du Canada dont les membres font un chiffre
8 d'affaires qui est au delà de 30 per cent du volume
9 total du commerce de détail de notre pays.

10 Parmi nos membres on trouve la plupart des
11 grands magasins à rayons ainsi que les magasins à
12 multiples succursales - on y trouve aussi des repre-
13 sentants d'à peu près toutes les divers groupements
14 de spécialités. La majorité de nos membres faisaient
15 partie de la Fédération Canadienne du Commerce de Détail,
16 mais cette Société est maintenant inactive.

17 Le Conseil croit qu'il n'est pas nécessaire
18 de souligner le fait que le Commerce de détail joue
19 un rôle de premier ordre dans une vie économique de notre
20 pays.

21 Cependant permettez-moi de vous rappeler que
22 le Commerce de détail embauche une partie considérable
23 des travailleurs disponibles au pays et que les
24 détaillants aux mêmes utilisent des fortes quantités de
25 marchandises produites au Canada aussi bien que les
26 services de tous genres.

27 De plus, quand on calcule les taxes que les
28 commerçants paient à tous les niveaux gouvernementaux il
29 apparaît que le montant signifie une proportion très
30 importante du montant total ainsi obtenu. C'est la
première fois depuis son existence que le Conseil du
Commerce du Canada comparait devant un corps
public. Nous nous croyons privilégiés car nous compre-
nons bien l'importance de l'œuvre qui sera accompli



1 par cette commission royale qui sera appelee a faire
2 des recommandations qui devraient affecter la prospe-
3 rite et le regime de fiscalite qui prevaudront dans
4 notre pays a l'avenir.

5 Puis-je souheiter que les suggestions que
6 nous faisons aujourd'hui seront opportunes et utiles.

7 THE CHAIRMAN: Merci, Monsieur Pollack.

8 Monsieur Beauvais, voulez vous exprimer
9 nos sentiments de bienvenue.

10 COMMISSIONER BEAUVAIS: Monsieur le presi-
11 dent, a votre demande j'ai le plaisir de remercier
12 Monsieur Pollack.

13 THE CHAIRMAN: Nous vous remercions.

14 Mr. Eaton, we are indeed flattered that
15 we should be the first public body to whom you have
16 addressed yourself and we are very glad that you have
17 given as much attention as you have to sales tax, a
18 matter with which we are very much concerned.

19 Before getting into our examination I would
20 like to ask one or two questions about your organi-
21 zation. You and Mr. Pollock have indicated the general
22 nature of it but I was wondering roughly how many
23 members there might be and whether the type of member
24 or the type of merchant you represent -- department,
25 specialty and chain stores -- does a large proportion
26 of the retail business of this country. My feeling is
27 that that would be the case. The last time I saw
28 figures I was surprised that this type of business did
29 not do a greater share. Much business is still done by
30 small merchants, apparently. Can you amplify?

MR. EATON: Yes. The Retail Council was
formed just last year as a successor to the Retail
Federation which had been in existence for some years.
Basically it consists of corporate members. The Retail



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1 Federation has association members. Associations were
2 affiliated with that
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1 federation, such as hardware merchants. The Retail
2 Council is open to any organization of any size.
3 There is, of course, a fee scale which relates to the
4 size of the organization. At the moment, having
5 started only to be organized last summer, we have
6 69 members and as was indicated in the opening
7 remarks, we have most of the major retail organizations
8 in the country as members, but not quite all yet;
9 we are still in the organization period.

10 It is the intention of the Retail Council
11 to enroll in the Retail Council any retailer of any
12 size whatever who wishes to join. It is open to
13 anyone to join. As I say, we are just in the
14 formative stage and we expect that in the next few
15 months we will attract more members to the Council.

16 THE CHAIRMAN: I have another question.
17 Would you have any idea of roughly what proportion
18 of the total retail trade was carried out by what
19 might be called the large merchants?

20 MR. EATON: In our submission we mention
21 that the present Council members represent
22 approximately thirty per cent of the total.

23 THE CHAIRMAN: Which would be an answer
24 to my question.

25 MR. EATON: Yes.

26 MR. BEAUVAIS: What would be the number of
27 employees?

28 MR. EATON: May we take notice of that?
29 We will have to add them up. We will have to ask
30 Mr. Morgan how many he has.



1 MR. BEAUVAIS: You employ a great number
2 of people, as you stated. I would like to know an
3 estimated number.

4 MR. POLLACK: Divide the sales by 15,000.
5 If anyone can give us a figure of sales we can
6 divide it by 15,000 and that will give the
7 approximate number of employees.

8 THE CHAIRMAN: That is an interesting
9 statistic.

10 MR. EATON: I would suspect it is
11 certainly in the hundreds of thousands as presently
12 represented here. Whether it is 300,000, 200,000,
13 250,000, I do not know, I would not like to guess
14 but we will try to work this out.

15 THE CHAIRMAN: Then I suppose you might
16 say that retailing would be three times that.

17 MR. EATON: Yes.

18 MR. STEWART: Just pursuing this line of
19 question, these 59 members of whom you speak are
20 all actively engaged in the retail trade?

21 MR. EATON: Yes.

22 MR. STEWART: That is, they do not include
23 any trade associations?

24 MR. EATON: No.

25 MR. STEWART: You say that membership would
26 be open to any retailer. Would this include what
27 are commonly called discount houses?

28 MR. EATON: Yes. I am not sure what that
29 is, but yes.

30 MR. STEWART: Would it include cooperatives?



1 MR. EATON: We have not been approached
2 by any. Anyone can join who is accepted by the
3 directors and who is operating in the retail trade
4 as a corporation.

5 MR. STEWART: How does your organization,
6 Mr. Eaton, differ from the Retail Merchants'
7 Association of Canada?

8 MR. McKICHAN: Mr. Stewart, I think it
9 would be fair to say that the Retail Merchants'
10 Association represents the smaller merchants while
11 the Retail Council represents the larger, the
12 medium sized and a certain number but not as many
13 of the smaller merchants as the Retail Merchants'
14 Association represents. There is no hard and fast
15 dividing rule; it is simply a matter of preference
16 as to which organization a retailer would care to
17 belong. He would no doubt be influenced by the
18 actions which the two associations took.

19 COMMISSIONER WALLS: Do you have a
20 conflict of interest which affects two organizations
21 covering one industry?

22 MR. McKICHAN: I think it would be fair
23 to say that the two organizations would probably
24 take a different attitude on certain questions.
25 On many questions the attitudes would be the same.

26 MR. EATON: I do not know of the top
27 limit of the size of the members of the Retail
28 Merchants, but of course it tends to attract the
29 smaller family-owned stores which may have relatively
30 few employees. As Mr. McKichan said, there is no hard



1 and fast line that we know of. The Council is
2 open to membership.

3 MR. REID: May I add a footnote? I
4 think in answering counsel's question, to put it on
5 a positive basis, there is probably a greater community
6 of interest between the members of the Retail Council,
7 which covers certain problems that are common to the
8 larger chain stores and the larger retail units, and
9 are not particularly problems in which the other
10 association would have any direct interest. This is
11 essentially a question of community of interest
12 among a specific group. I think this is basically
13 the answer.

14 THE CHAIRMAN: I seem to remember there
15 are something like 300,000 retail merchants in
16 Canada, of which you have 59, so you are bound to
17 have a much easier relationship, I would think,
18 than would be the case with thousands involved.

19 MR. EATON: Yes.

20 MR. STEWART: Gentlemen, I would like to
21 deal at greater or lesser length with most of the
22 subjects you deal with in your submission, and I
23 think what I would like to do now is move to page 8
24 of the submission and ask you a few questions about
25 what you say there concerning the criteria for
26 judging the tax system. I do not propose to spend
27 much time on this particular section of the brief,
28 however.

29 I observe that on page 8 you suggest that
30 in the first place taxation should vary according to



1 ability to pay. Then you go on and you seem to
2 indicate that from an equity point of view two
3 of the things that should be taken into account
4 in determining tax paying capacity are income and
5 wealth. Now, there cannot be any doubt in this
6 country that we tax income. Most people think we
7 tax income quite heavily. I was rather intrigued
8 at the emphasis you appeared to attach to wealth,
9 and I wonder if you could indicate in what respect
10 you consider that we tax wealth as such at the
11 present time.

12 PROFESSOR POAPST: I think that we had
13 in mind there the estate tax.

14 MR. MALLETT: May I add that I think to
15 some degree at least the sales tax is a tax on
16 wealth since it is a tax on the consumption, which
17 perhaps appears to bear no relation to income.

18 MR. STEWART: Would you also consider
19 that municipal property taxes are a tax on wealth?

20 PROFESSOR POAPST: Yes.

21 MR. MALLETT: Yes.

22 MR. STEWART: If I may take those individual
23 items one by one -- the municipal property tax may
24 be a tax on wealth but I take it it is a tax simply
25 on one form of wealth, and for that reason it is
26 regarded by many writers as not being a desirable
27 form of tax. Would you comment?

28 PROFESSOR POAPST: On the grounds of
29 equity I would think one should tax all forms of
30 wealth if one is going to tax wealth at all. If



1 wealth is a criterion of capacity to pay, it should
2 be generally taxed. This is looking at it from
3 the equity point of view only. I am not trying to
4 rule out the possibility that there could be
5 administrative difficulties associated with this.

6 THE CHAIRMAN: Mr. Stewart, I, like you,
7 was very intrigued with this statement about wealth.
8 I was wondering where I was going to find a recommend-
9 ation of some tax on wealth and I was thinking of
10 net worth as in Europe, or succession duties. As
11 you say, one having greater wealth than another would
12 therefore have greater tax paying capacity, and it
13 would seem to me if he has a greater tax paying
14 capacity he should be more greatly taxed.

15 MR. STEWART: Mr. Chairman, if I could
16 just amplify that, it seemed to me as I went through
17 the brief that we came to succession duties (which
18 can be perhaps regarded more as a tax on transfer
19 of wealth than on wealth itself) we find that you
20 indicate first of all that succession duties form a
21 very small proportion of our tax revenues and then
22 you go on to suggest that that proportion, if any-
23 thing, be decreased.



1 You also discuss capital gains taxation, and I
2 suppose in one sense a tax on capital gains might be
3 regarded as a tax on wealth. It is an accretion
4 of wealth, in any event. But there, again, you are
5 opposed to capital gains taxation, and I am just
6 curious, as the Chairman obviously is, as to
7 how you consider we deal with wealth in our taxation
8 system. I also wondered, as the Chairman obviously
9 has, whether you are perhaps inferring that we should
10 impose some kind of tax on that wealth.

11 PROFESSOR POAPST: I have a couple of
12 points to make on this, Mr. Chairman. I think that
13 in setting out the criterion for judging a tax system
14 we were obliged to take into consideration all aspects
15 of the tax system, and perhaps we have not given
16 as much attention to wealth taxes as that statement
17 might suggest. I think I would disagree with what
18 you have said, Mr. Stewart, about a capital gains tax
19 being a wealth tax in that it is an accretion of
20 wealth. Any form of income, then, can be viewed
21 as an accretion of wealth, and an income tax might
22 be construed as a wealth tax. I think a wealth tax
23 is a tax on stock of capital or gains thereunder at a
24 point in time. It may be picked up when that wealth
25 is transferred, as in the case of the estate tax, or
26 levied annually, as has been suggested; but I do not
27 think we have any recommendation such as that in
28 mind.

29 MR. STEWART: At the bottom of page 8,
30 and on page 9 of your brief, you deal with the question



1 of the effect of taxation on the allocation of
2 resources and you mention in particular the effect
3 of taxation on the time spent by individuals, first
4 of all, on production as opposed to leisure; and
5 secondly, on the disposition of their income. That
6 is, as between consumption and saving and as between
7 particular types of consumption.

8 I wonder if you could comment on this question
9 of allocation of resources from this point of view:
10 You deal elsewhere in your brief with tax incentives
11 or preferences of one kind or another. You mention,
12 for example, the taxation of co-operatives.

13 Do you consider that tax preferences,
14 and perhaps tax incentives as well, in themselves
15 involve an allocation of resources?

16 PROFESSOR POAPST: I am not sure I follow
17 your question, Mr. Stewart.

18 MR. STEWART: Let me put it this way.
19 If a particular type of taxpayer is accorded a tax
20 preference, this means that the tax authorities,
21 or the state, are deriving a smaller amount of income,
22 let us say, from that particular type of taxpayer
23 than taxpayers generally. It means, as I see it,
24 that taxpayers generally are in one sense contributing
25 to that particular industry and that particular type
26 of taxpayer. Does this involve an allocation of
27 resources?

28 MR. REID: Mr. Chairman, perhaps I might
29 take this question. I think this is one of the most
30 important matters for the consideration of this



1 Commission, and I think that this particular question
2 which, with your permission, I shall amend slightly,
3 sir, can be answered in both terms of the social
4 and political philosophy involved, and secondly in
5 terms of the economic consequences.

6 I think we would all agree that in a country
7 where 25 per cent of the gross national product is
8 being siphoned into tax revenues by the various levels
9 of government, and where relatively speaking the
10 general level of taxation is high, fiscal policy can
11 be a very powerful instrument, not in allocating
12 resources directly but in influencing the direction
13 of resource utilization. I think it is a very
14 important fact which has not really been given as
15 much consideration as it should have been given, that
16 if our elected representatives are going to use the
17 tax system as a means of influencing resource
18 utilization and productive effort in the country,
19 the proper place for this to be understood is in the
20 electoral process and we should not back into a form
21 of government and political philosophy through the
22 back door of the tax system.

23 These are perhaps the social and political
24 underlinings to your question. There is secondly,
25 of course, the economic results. As the Retail
26 Council brief states, we do not believe in a dis-
27 criminatory incentive system because, of course, an
28 incentive to one section of the productive effort is
29 a disincentive in another area. It is a narrowing
30 of the tax base.



1 If the effects that are desired are to
2 be attained in any degree, then the incentive must
3 increasingly become greater as the base narrows
4 and the area of discrimination becomes greater.
5 I think that most of the incentives which have
6 recently crept into our tax system -- and there is a
7 long series of them which cover scientific research,
8 the old sales incentives, designated areas,
9 accelerated depreciation, allowance for re-equipment
10 and modernization, etc. -- are primarily available
11 to the manufacturing industry, which is an important
12 employer of labour in this country, and most of the
13 reasons given for these incentives are to increase
14 employment. But this is an industry where automation
15 will be increasingly reducing the level of employment
16 related to sales or related to other measures.

17 The services industries, of which the
18 retail industry is perhaps the largest -- it is
19 certainly the largest employer -- receives no such
20 incentives or tax exemptions, and this in itself is
21 a contradiction in terms of what the incentives are
22 supposed to achieve, as well as being basically
23 discriminatory in the tax system.

24 I think, also, that there is a tendency
25 for incentives of the character which are now being
26 built into the tax system to lead us gradually,
27 in so far as they are effective, towards a higher
28 cost economy: not that we would think that these
29 incentives at the current levels are such as to
30 be the sole determinant of economic decisions on the



1 part of individuals or corporations, but they
2 certainly, in so far as they do influence those
3 decisions, influence them in non-economic directions;
4 or, secondly, provide happy windfalls to those people
5 or those corporations which were going to undertake
6 certain business decisions irrespective of the tax
7 incentives.

8 THE CHAIRMAN: Mr. Stewart, before you
9 go any further with this point I should like to ask
10 this question. It seems to me that it is very
11 easy for us to follow the economics part of this
12 reply. It is well set forth in the submission and
13 I think it is carefully explained. I do not under-
14 stand the social and the political part of the answer,
15 which was the first part. Mr. Reid suggested that
16 rather than using the tax system for the allocation
17 or misallocation of resources, it should be done
18 through the electoral process.

19 What do you mean by that? I do not follow
20 that.

21 MR. REID: Pardon me, Mr. Chairman. I
22 think, essentially, that the place where a decision
23 should be made in this country as to whether we are
24 going to have greater direction of the economy,
25 utilizing fiscal policy among other things, is during
26 the electoral process, which is our periodic federal
27 elections or provincial or municipal elections, in
28 so far as the particular body has jurisdiction.
29 This is the area.. It is not through the back door
30 of using fiscal policy -- a very powerful instrument



1 -- to increase the amount of direction in the economy
2 where this has not been discussed on the hustings.
3 I think this is a very important fact.

4 THE CHAIRMAN: If I follow you, you mean
5 that if a country is to embark on an economic
6 direction --

7 MR. REID: It should be aware of it.

8 THE CHAIRMAN: If a country is to embark
9 on an economic direction by means of fiscal controls,
10 it should be the subject of public debate and should
11 be settled on the hustings?

12 MR. REID: That is right, Mr. Chairman.

13 THE CHAIRMAN: It should not be something
14 that creeps into our tax system?

15 MR. REID: That is quite correct.

16 THE CHAIRMAN: If this is a valid point,
17 and if these things do in fact creep into our tax
18 system, you say that the debate in Parliament has
19 not taken care of it; that it has to be looked at
20 carefully at the time of an election, and looked
21 at publicly?

22 MR. STEWART: I would have thought this is
23 perhaps a question of political philosophy and that
24 what Mr. Reid has said negates, to some extent, the
25 function of Parliament.

26 MR. REID: I think there is a sovereign
27 body where this might be discussed, and that
28 area is the hustings, because there is a tendency
29 for incentives of this character to creep in gradually,
30 and the process might not be realized, in so far as they



1 come into the system on rather modest bases and,
2 of course, once having drunk at the well you drink a
3 little further in order to increase the stimulus or
4 economic result you are trying to achieve.

5 THE CHAIRMAN: You are saying that in
6 addition to the ill economic effects which you have
7 explained carefully in the submission and we all
8 understand, I think, if we are going to have a
9 directed economy it should not be done in this manner?

10 MR. REID: That is quite right, sir.

11 PROFESSOR POAPST: Is it perhaps not fair
12 to say that the people who will be in Parliament to
13 debate the direction might be a little different if
14 the issues were debated on the hustings before hand?

15 MR. STEWART: That may be. Mr. Reid, you
16 have mentioned specifically certainly comparatively
17 recent incentives which have been incorporated into
18 our tax system, in some cases for limited periods.
19 Would your general approach be the same as regards
20 certain preferences or incentives which have been
21 there for a more considerable period? I have in mind,
22 for example, the tax treatment of the resource
23 industries.

24 MR. REID: I think it is difficult to be
25 specific in this area; but I think our answer would
26 be that the incentives of a discriminatory character
27 as applied to particular industries or persons that
28 are contained in the tax system, and are not available
29 generally, the more desirable it is.

30 MR. MALLETT: May I add, Mr. Chairman, that



1 I am not altogether sure of whether the resource
2 industries do in fact have any real tax incentives;
3 whether the determination of taxable income is merely
4 the appropriate way to determine taxable income
5 in their particular situation.

6 THE CHAIRMAN: If you want to discuss that,
7 it will take us a few minutes. But you are denying
8 the established accounting practices, which have been
9 established for a long time, and are saying that they
10 should be done in a different way. This has, of
11 course, been raised time and again before this
12 Commission and I do not really think the Retail
13 Council is quite the time to go into that question.

14 MR. MALLETT: That is quite right, sir.

15 MR. STEWART: I observe that on page 9,
16 at the beginning of paragraph 22, you refer to the
17 fact that taxes are levied to finance the public
18 employment of resources. Is there any optimism on
19 the part of your Council that the role of the public
20 sector of the economy is going to decrease in importance?

21 MR. EATON: Was the question: Is there
22 any hope?

23 MR. STEWART: Is there any optimism?

24 MR. REID: Retailers are always optimistic.

25 PROFESSOR POAPST: I take it that a
26 decrease is the optimistic view?

27 MR. STEWART: I think most people would
28 look at it that way.

29 PROFESSOR POAPST: Then we might divide
30 on this issue.



1 MR. STEWART: Perhaps I was wrong, but I
2 felt that your Council thought that a decrease
3 would be desirable.

4 PROFESSOR POAPST: I think I had better
5 not answer that.

6 THE CHAIRMAN: What is the question,
7 Mr. Stewart? I am sorry.

8 MR. STEWART: I have just been wondering,
9 Mr. Chairman, after looking at the brief as a whole,
10 whether they have any real optimism that the overall
11 burden of taxation in this country is going to decrease.

12 MR. REID: Yes, I think we do have optimism,
13 if you carry out some of the recommendations which
14 are contained in this brief, sir.

15 PROFESSOR POAPST: It depends on what you
16 mean by "burden", Mr. Stewart.

17 THE CHAIRMAN: Yes, I think that is right.
18 There is the question of the social benefits derived
19 from government which are paid for out of taxation,
20 and it may be to the extent that those are cut for the
21 nation, it would not be desirable to reduce taxation
22 and cut those down. I suppose, like everybody else,
23 they would say that so far as there is waste, taxes
24 should be cut.

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1 MR. REID: Yes. Somehow I just wanted to
2 amend my previous statement. I should say that we are
3 optimistic if the Government of Canada or the appropriate
4 body carries out our recommendations.

5 COMMISSIONER PERRY: I don't suppose you would
6 care to express an opinion as to how closely you
7 could argue the point of maximum and
8 marginal returns at the proper time.

9 PROF. POAPST: Did you say would we care to
10 express an opinion?

11 COMMISSIONER PERRY: You invited the comment,
12 I am afraid. You could quote "Galbraith" to me, if
13 you wish.

14 PROF. POAPST: I think I would rather quote
15 Connor and Mardar on Galbraith, who said if his
16 good friend Kenneth Galbraith would write his book over
17 again, he thought he would write it rather differently.

18 There are some aspects here on some of our
19 thinking underlying this problem -- it comes up later
20 in the brief -- in business accounting procedures we
21 codify the benefits provided by business activity. I
22 think they are known as sales revenues. The benefits
23 of Government activities are not codified however. I
24 think there is a tendency to think that government
25 finances is a burden, partly for this reason.

26 With respect to surplus and deficit, this is
27 cash flow accounting which we apply to the government
28 and then we apply profit and loss accounting to private
29 business. I think in the public's mind it tends to
30 be construed as comparable accounting approaches. This



1 is perhaps a bit of an exaggeration but not entirely an
2 erroneous statement, I think.

3 For this reason, I think that government
4 expenditure tends to be wasteful. The government is
5 living beyond its means because it is living off its
6 debt. We apply the same thing to consumer goods and
7 in the problem of consumer durables which are not
8 codified.

9 But business debt has grown very widely in the
10 post-war period. One could argue we should not get
11 excited about it but businesses are living beyond their
12 means.

13 If we use the same approaches, businesses have
14 been living beyond their means throughout the post-war
15 period. This is obviously an undesirable situation.

16 I think it is very important. All I am trying
17 to do is really underline the fact that there are
18 important factors -- critical services are provided by
19 the government.

20 If we think of our unemployment problem as
21 perhaps becoming one that has hardened and will involve
22 considerable expenditures in the adaptation of the
23 skills of the unemployed to the skills that may be
24 demanded in our country, I think we can see that there
25 is great sizeable expenditures by government again that
26 would enjoy or would produce net benefits of the same
27 size, again which bears on the economy.

28 What does one mean by net benefits. I am
29 thinking in terms of the value of the structure to the
30 services less the cost to produce them. In many cases



1 the important thing is the alternative sacrifice of not
2 being able to employ the resources in alternative ways
3 when there are employment opportunities. The cost of
4 your employing these resources is nil.

5 If it is the government's responsibility to
6 have to take steps to promote employment with public
7 spending so that the growth benefit becomes the same as
8 the net benefit, then the rate of return on public
9 expenditure can therefore be very high.

10 COMMISSIONER PERRY: We are grateful for having
11 that statement on the record.

12 MR. STEWART: Gentlemen, I think I would like
13 to go on to page 11 of your submission where you deal
14 with the question of administration of legislation. Do
15 I take it that as far as the Income Tax Act is concerned,
16 at any rate, your approach to that is that we should
17 have that Act consist of as few as possible general rules
18 of general application.

19 MR. MALLETT: I think, Mr. Chairman, that I
20 might have overstated our position slightly. It depends,
21 I suppose, on what you would consider to be "as few
22 as possible general rules".

23 I think the only point we wish to make here
24 is that there has been, we believe, an undesirable trend
25 in recent years towards greater complexity in the Act
26 and although we cannot be too specific in this
27 connection the result seems to be that equity in some
28 cases has suffered because of this equity -- the
29 application of the Act has suffered because of this,
30 because these very complex rules have hardened the



1 interpretation that the courts must apply and they are
2 given very little leeway in interpreting what the
3 intent of the Act should be.

4 MR. STEWART: Would there not be risk if you
5 have a simple rule broadly stated in the legislation that
6 what would happen in practice would be that the
7 authorities who administer the legislation would develop
8 rules of application which would not be known to the
9 taxpayer and had not been set out in the legislation
10 itself with the result that the administration, as far
11 as the taxpayer is concerned, would be more uncertain.

12 MR. MALLETT: Yes, except for one factor that
13 the courts would always have the final say. I think
14 that perhaps the advantage of certainty in the Act is
15 overstated. Equity is perhaps a more important
16 consideration.

17 MR. STEWART: Can you refer us to any western
18 country which is comparable to Canada, as far as its
19 economy is concerned, where tax legislation is of the
20 type you are recommending; that is, where they have
21 succeeded in staying away from complexity.

22 MR. MALLETT: I think in our first paragraph
23 we say we have on the whole a very good body of tax
24 law and of administration in Canada. We vary in this
25 respect. We are afraid more of that trend that has
26 been introduced in recent years might result in a very
27 much more complex law in the future.

28 MR. STEWART: I don't know, Mr. Chairman,
29 whether you would regard this as the appropriate place
30 to put this question but there is a reference here to



1 Section 4 ---

2 THE CHAIRMAN: Yes.

3 MR. STEWART: There is an obvious question here
4 whether these gentlemen would consider that Section 4
5 would be improved if it was provided that profits for
6 the year should be determined according to accepted
7 accounting principles.

8 THE CHAIRMAN: I will allow them about one
9 minute to answer that.

10 MR. MALLETT: I understand the Institute of
11 Chartered Accountants has some position on that subject.

12 MR. STEWART: Then, in paragraph 29 of your
13 brief you deal with the question of advance rulings.
14 Let us suppose that a particular taxpayer goes to the
15 Department and asks for a ruling on a matter which
16 concerns him. You refer in line 4 on page 22 to
17 advance rulings. Are you suggesting that the Department
18 should be required to give a ruling to him and him
19 alone or are you suggesting that these rulings given
20 to a particular taxpayer should be published.

21 MR. MALLETT: We are not suggesting they
22 should be published, no. I think advance rulings of
23 this nature would be perhaps too specific to be of any
24 value to outsiders.

25 THE CHAIRMAN: You will agree this must be
26 recognized. These would be equivalent to advance
27 assessments. If you are going to make blanket rulings,
28 this has got to be done as carefully as you say.
29 Consequently this is not going to be done quickly.

30 They have done this in other countries,



1 sometimes easily and sometimes with extreme difficulty.
2 Sweden has an advance ruling procedure, not many people
3 have taken advantage of it because it is slow. You have
4 got to get it assessed and so on.

5 I am not at all sure if you wrapped this up
6 in some form of advance ruling procedures, you are not
7 going to slow down what is now reasonably satisfactory.
8 I would think that if you got individual rulings in
9 most cases and they do not back down -- I think I am
10 perfectly safe in saying that -- I will admit I cannot
11 give assurance they could not back down -- I cannot see
12 for the sake of additional certainty that you would put
13 in a system which is going to be slow and, I think,
14 cumbersome.

15 I think the people who have had experience
16 with the U.S. law found it takes a lot longer. They
17 have had a tremendous amount of experience in developing
18 their procedures. I would think we would be somewhat
19 slow to do the same.

20 The U.K. has the right of advance rulings in
21 three sections of their Act for specific purposes.
22 Generally they do not do it. I think it is not
23 something which one could say quite easily that advance
24 ruling procedure is desirable. There is a good deal
25 on both sides of this question.

26 COMMISSIONER PERRY: I wonder if I might ask
27 a general question on this whole area that is covered
28 in the paragraph up to 29 and that is what the views
29 of the witnesses are as to the desirability of having
30 guide lines for the taxpayer set down on paper and in



1 asking that, my concept of guide lines set down on
2 paper run all the way from the statutes, jurisprudence
3 and everything in between.

4 The essence of ministerial discretion is that
5 you deal with things as they come along for the most
6 part, I would think, simply on a correspondence basis.

7 The trend in recent years, of course, has been
8 away from this and perhaps this ruling process but in
9 its simplest term to the public with more words provided
10 for the guidance of the taxpayer. These words even
11 appear in the statute for the most part. If this would
12 be an undesirable process, would you be happier by
13 simply relying on the jurisprudence, although that is
14 just another process of creating certainty with the
15 written word.

16 THE CHAIRMAN: Ministerial discretion.

17 COMMISSIONER PERRY: They are opposed to
18 ministerial discretion in the brief. In other words,
19 what are your views as to the best method of
20 communicating between the taxpayer and the tax
21 authorities; whether it is by discussion or whether
22 we should have a body of written guide lines. I might
23 add to that, if we do have a body, where should they
24 appear, and what form should they take?

25 MR. POLLACK: Mr. Chairman, I would like at
26 this point to perhaps take a look at the law that now
27 exists in the Province of Quebec, which is a codified
28 law and the law which exists in the other provinces,
29 which is the English common law.

30 Can we be inspired in any way by the value



1 of codified law as opposed to law which is built on
2 jurisprudence, if you believe, as I do, because I have
3 lived under the jurisdiction of the Napoleonic Code
4 and have studied it. It is possibly the right law
5 which in the course of its life serves the people in
6 the way that it is meant to serve them because you have
7 the wisdom of the judges to interpret it, as it needs
8 to be. You have the wisdom of your legal services to
9 define, if it needs definition after it has been
10 enacted by the legislature.

11 If we were to take the Income Tax Act and
12 write it as they wrote the Napolonic Code, could it
13 not serve the needs of all the country without trying
14 to write into the Tax Act every small point that has
15 come up over the years?

16 I think there may be something to be learned
17 from the use of the law that has been codified, as it
18 has been done in the Province of Quebec as opposed to
19 other places where it does not exist.

20 MR. STEWART: Mr. Pollack, may I ask this:
21 If this approach you have just suggested were adopted,
22 do you think the present length and complexity of the
23 Income Tax Act could be materially reduced?

24 MR. POLLACK: I think the length and
25 complexity of the Income Tax Act is the result of the
26 complications that have arisen in the interpretation
27 of the Act over the years.

28 Is it not perhaps time to take the Income
29 Tax Act and rewrite it in the light of the experience
30 that has prevailed in a shorter form and in a less



1 complicated way put into the Act what we want to say;
2 by reason of the fact that we have learned so much since
3 it was first written.

4 THE CHAIRMAN: Could you be specific at all,
5 Mr. Pollack? I am thinking of the complications in the
6 Act where there are -- I suppose associate companies,
7 if you like, is one that seems to keep on recurring.
8 It is a most complex section of the Act. It has been
9 rewritten quite a few times to try to achieve greater
10 certainty. The result is it is very hard to understand.

11 MR. POLLACK: But are there so many of these?
12 I wouldn't think so.

13 COMMISSIONER PERRY: I think I would be willing
14 to go along with Mr. Pollack. I think it was Mr. Dave
15 Carr who said that the more complexity in the law the
16 more possibility there is for evasion of the law but I
17 sometimes wonder as to what the complications of this
18 are.

19 We have a simple law. It is really going to
20 be up to the courts to set out how it will apply in
21 individual cases of doubt.

22 Is this good enough -- not in the qualitative
23 sense but in the sense of time. A lot of people are
24 going to find they are not certain as to their position.

25 COMMISSIONER GRANT: I think it is interesting
26 to go back to consider the jurisprudence that we find
27 in the drafting of the Income Tax Act in the first
28 instance and I believe that it is the law that a taxing
29 statute is to be strictly interpreted by the courts
30 and therefore any equitable principles have to be



1 drafted into the Act in the first instance rather than
2 be developed as a result of judicial interpretation.

3 Now, the alternative, which to me is a very
4 interesting one, of codifying the Income Tax Act
5 means that you are asking the legislature to become not
6 only to exert its executive function in the drafting
7 of the statute but you are asking them also to exercise
8 part at least of that judicial function of interpreting
9 the Act.

10 Therefore in a statute that has been
11 codified you are getting not only the Act itself but you
12 are getting a great measure of interpretation, but not
13 entirely. We have the Criminal Code in Canada which,
14 of course, is a codified Act.

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1 The Criminal Code in Canada is of course a Commonwealth
2 act administrated on the part of all provinces,
3 and very effective.

4 MR. STEWART: I suppose one interesting
5 question here would be what success Napoleon might
6 have had if he had attempted to codify income tax
7 legislation.

8 MR. POLLACK: He just did it in the
9 simple way; he took what he needed and did not ask!

10 THE CHAIRMAN: We have the Bar coming at
11 the end of the week and we can have a crack at them.

12 MR. STEWART: I have just one question on
13 this general subject, amplifying what Mr. Perry has
14 said.

15 Would you have any views as to the desirability
16 of the issuance by the tax department of what
17 Mr. Perry has called guide lines, which indicated how
18 the department interpreted and proposed to apply
19 the particular provisions of the act?

20 MR. MALLETT: I think it would be a very
21 worthwhile step if the department were to release the
22 assessment manual to the general public.

23 MR. STEWART: In other words, this would be
24 informative, it would not be binding either upon the
25 department or upon the taxpayer but it would be an
26 indication of what was the departmental approach?

27 MR. MALLETT: Yes.

28 MR. STEWART: Moving over to paragraph 31,
29 you deal with the question of ministerial discretion.
30 Do I take it that you consider that it should be possible



1 to eliminate ministerial discretion completely from
2 the legislation?

3 MR. MALLET: We would hope so, yes.

4 MR. STEWART: Do you know of any countries
5 in the western world where it has been possible to
6 eliminate this completely?

7 MR. MALLET: Well, Canada did not have
8 ministerial discretion until last year.

9 MR. STEWART: For a limited period. Do
10 you know of any others?

11 MR. MALLET: I am not aware of any.

12 COMMISSIONER PERRY: Except for the approval
13 of pension plans, which I think technically was a
14 ministerial discretion.

15 MR. MALLET: Is that ministerial?

16 COMMISSIONER PERRY: I guess I am using the
17 old language.

18 MR. GRANT: The Estate Tax Act had
19 ministerial tax discretion, and still has.

20 MR. STEWART: I referred to the Income
21 Tax Act because that was the specific legislation
22 mentioned in paragraph 31.

23 In paragraph 32 you suggest there should be
24 some committee or group which should be responsible
25 for reviewing tax policy and proposing amendments
26 to tax legislation. The group that you suggest
27 will apparently consist of civil servants. Would
28 you contemplate that taxpayers could make submissions
29 to that group?

30 MR. MALLET: I think it would be a



1 desirable procedure for such a group to seek the
2 advice of interested taxpayers from time to time for
3 their suggestions.

4 THE CHAIRMAN: Have you discussed this
5 in your committee at all? Have you discussed whether
6 it should be in fact a body before which taxpayers
7 appear? That has been recommended to us more than
8 once.

9 MR. EATON: This was not discussed
10 specifically, Mr. Chairman.

11 I think the thought was not that there would
12 be a body set up to which people could come auto-
13 matically. This is really a departmental group
14 whose duty would be to advise the minister on the
15 possible implications of various moves and also, as
16 I understand it, Mr. Mallett, to make sure that there
17 was a body who would be in a position to assess the
18 results of moves taken in the past, so that there
19 should be a more continuing research in effect.

20 THE CHAIRMAN: Is there not such a body
21 now?

22 MR. REID: We are not aware of it, sir.

23 THE CHAIRMAN: There are obviously civil
24 servants concerned with budgetary matters and others
25 who discuss them.

26 MR. REID: This would be essentially a
27 planning committee that would be divorced, as I
28 understand it, from the day to day operations of the
29 department.

30 As a specific case, perhaps if the Economic



1 Council which has been recently appointed recommends
2 certain desirable economic objectives to the government
3 of the day and there are fiscal implications involved
4 in this, this particular body would consider the
5 appropriate tax measures to attain these economic
6 objectives and also the administrative problems in-
7 volved, and implement them.

8 MR. STEWART: On page 14, gentlemen, you
9 deal with the subject of tax incentives and corporate
10 taxation.

11 As I see it, in substance you say that tax
12 incentives should be available to all taxpayers; they
13 should not be discriminatory or unrelated to ability
14 to pay, or be highly selective. I am looking in
15 this connection at page 15, paragraph 1.

16 If tax incentives have these criteria --
17 that is, availability to all, non-discriminatory,
18 and related to ability to pay, etc., are you saying
19 in effect that tax incentives should be eliminated?

20 MR. REID: I think we are, in so far as
21 it is possible to do so realistically. I think we
22 would quite understand that within any tax system,
23 no matter how you approach perfection in terms of
24 equity, there is bound to be some discrimination.
25 What we deplore is the constant effort to increase
26 the area of discrimination which is established
27 through an increasing number of incentives for
28 particular groups or particular areas in the economy.

29 MR. STEWART: Have you in mind, Mr. Reid,
30 an incentive which is presently in the income tax



1 legislation which you think is a good incentive?

2 PROFESSOR POAPST: Have we in mind an
3 incentive in the income tax act which is a good one?

4 MR. STEWART: Do you think there are any
5 good ones in the legislation?

6 MR. REID: This is a very difficult question
7 to answer. I think, for instance, that within the
8 corporate income tax structure the present allowance
9 or the present distinction in terms of the rate that
10 applies to profits at a certain level we would not
11 agree with in principle, but we would recognize the
12 fact that in Canada it may be desirable to increase
13 competitive influences in this economy, and one of the
14 broad ways of doing this is to provide some fiscal
15 encouragement to small business.

16 THE CHAIRMAN: You are not saying that the
17 way it is now is the right way to do it?

18 MR. STEWART: Let me put this to you
19 because you obviously have some scepticism as to the
20 merits of incentives in certain designated areas.

21 Is it arguable in this country that
22 these incentives for particular areas may serve the
23 purpose of getting those areas over an initial hump
24 and that after they have achieved that, once the
25 area is over the hump, then the incentives may cease
26 to be necessary, and that particular designated area
27 may be able to stand on its own feet?

28 PROFESSOR POAPST: This is an infant area
29 argument, I gather. It is one that I have not, I
30 admit, really thought about. I think what we are



1 disturbed about in some of the incentives relating to
2 area is the use of incentives generally to divert
3 investment from the location or type of industry that
4 it might otherwise take, in an effort to solve short-
5 run employment problems. We will gradually accumulate
6 a stock of fixed capital in the economy which is much
7 more poorly allocated than it would otherwise be,
8 and the expedients of the moment will prove to be
9 long run burdens in terms of employment because if
10 we are an international trader trying to compete,
11 the importance of cost minimization is great.

12 MR. STEWART: Let me give you what I
13 understand is an example, although it is one about
14 which I have no personal familiarity, it is outside
15 our own country altogether.

16 In the case of New England it has been
17 put to me that what happened to the textile industry
18 there was a major misfortune but that through fiscal
19 measures, among others, it has been possible to
20 reinvigorate that particular area. In Canada the
21 problem may not be quite the same in the sense that
22 it may not be the case of reinvigoration, it may be
23 the case of initial stimulus, but granted that there
24 are risks of the sort to which you have referred and
25 which are mentioned in the brief, is there an
26 argument that this type of assistance or incentive
27 can bring a particular area up to the point where
28 it can compete?

29 THE CHAIRMAN: What type of incentive?

30 MR. STEWART: At the moment we have



1 depreciation allowances and the tax holiday, and so
2 on.

3 MR. REID: I was just going to say that
4 this really again comes back to my initial commentary
5 that this is a substitution of the judgment of the
6 government of the day at a particular time for the
7 decisions of the marketplace. We believe that
8 this will lead to uneconomic activity and that it
9 will not necessarily give any initial impetus that
10 is going to carry on because the basic decisions on
11 this would be made in the marketplace if this were
12 so, and the corporation or the individual would make
13 the decision recognizing that there might be an
14 interim period in which it might not be possible for
15 him to reach his profit objectives but that the
16 market conditions were such in the area that over a
17 period of time, once the initial hump, as you have
18 suggested, has been traversed, when this would be a
19 sound business or economic decision.

20 I think again this is a basic question of
21 philosophy. It is quite possible to have a designated
22 area today in which you introduce long term incentives
23 -- and they have to be long term and they have to be
24 effective, but the conditions may change in the interim
25 period and make this a highly undesirable thing to
26 do.

27 COMMISSIONER PERRY: With respect, I do
28 not think it is an economic decision at all; this
29 is a social decision.

30 MR. REID: This is what I said earlier.



1 COMMISSIONER GRANT: We now come to the
2 third discipline. We have talked about economics
3 and philosophy, and now we bring in sociology and
4 that, as Mr. Perry has correctly stated, is the
5 motivating force behind the governments designating
6 certain areas where accelerated depreciation or tax
7 incentives be given. Purely on that ground, through
8 such a course, through such fiscal policy if an area
9 can be rehabilitated, perhaps in an entirely different
10 way but if it can be brought back as a useful part
11 of society, that may be worth while trying. There
12 may be other ways of doing it, but this is the means
13 which the government at the present time has chosen
14 in order to attempt to bring about these things.
15 They look upon an area in which unemployment is high
16 -- and it is high for various reasons, it might be high
17 due to no fault whatsoever of the area but rather due
18 to a shift in the economy or a shift in the processing
19 of goods and services, and yet that area has all the
20 necessary things to develop industry; it has cities
21 which are equipped with a police force, with hospitals,
22 with sewage, with water, with schools and yet it has
23 a large area of unemployment.

24 Is it not feasible that the government
25 should devote its attention to that sort of thing and
26 say that here is an area which is worth saving, which
27 is worth bringing back if we can do it?

28 MR. REID: This again is a question of
29 social philosophy, but strictly in economic terms,
30 if it has all these things -- and economic decisions



1 are based on a number of elements, transportation,
2 availability of power, and a number of things such
3 as skills in the labour force -- if this is a sound
4 economic thing to do it would take place within the
5 decisions of the marketplace.

6 I do not think we are saying anywhere in
7 this brief -- because it is not appropriate to your
8 terms of reference -- that there are not other ways
9 and means of changing the conditions that exist that
10 in turn influence the decisions of corporations as
11 to whether they should locate in a particular area,
12 and I cover such things as transportation, low-cost
13 power, and things of this character. This has not
14 been discussed in the brief. It may or may not be
15 desirable; the Council has no views on it.

16 I would suggest that there may be more
17 appropriate instruments to establish the conditions
18 which act as a true incentive to industry to locate
19 in a particular area rather than the utilization of
20 a tax system.

21 THE CHAIRMAN: You are not saying that
22 economic measures should not be used for social
23 purposes?

24 MR. REID: No.

25 THE CHAIRMAN: You are saying that these
26 are not the best economic measures to use?

27 MR. REID: Yes.

28 THE CHAIRMAN: Indeed, I was interested
29 recently to try to find out a little more about the
30 development of southern Italy, because that has been



1 one of the places that have attracted most attention.
2 The answer I generally received as to the effective-
3 ness of tax policy was that there had been other
4 measures far more effective than tax policy. I
5 think that everyone felt that some tax measures had
6 probably had assistance --- they had more regard to
7 sales taxes, I think, or customs, than they had to
8 income tax. Transportation, cheap financing and
9 power development were the important matters in that
10 part of the world.

11 COMMISSIONER PERRY: The one kind word
12 that we have heard for the tax approach is that this
13 does leave the initial step to the business involved,
14 that they have no government direction here, no
15 examination of the case, no negotiation of a deal;
16 the individual business examines the situation, and
17 it goes or it does not go.



1 MR. REID: I think this is even more true in
2 the other area, in the provision of such things as cheap
3 power and corporate transportation rates. The decision
4 is still with the individual or the corporation as to
5 whether it is going to go in or is not going to go in.
6 I think, since this is a social objective, and what we
7 are all talking about is an increase in employment when
8 we are talking in social terms, basically, these kinds
9 of incentives as they now exist are the type which
10 conceivably would attract to a designated area an
11 industry which employs very few people.

12 THE CHAIRMAN: In fact, some are so designed,
13 are they not?

14 MR. REID: And some are so designed, that is
15 quite right, sir.

16 COMMISSIONER PERRY: If, as you say, it is a
17 matter of how cheap these things are, I would suspect
18 that if an arrangement were made to give exemption from
19 income tax for the next one hundred years, within 50
20 years Halifax would be twice the size of Vancouver and
21 Toronto.

22 COMMISSIONER GRANT: Hear, hear.

23 PROF. POAPST: Going back to the statement made
24 when the question was raised in terms of the hurdle
25 problem, I think we will have to face up to the problem
26 that overcoming a hurdle involves public expenditure,
27 and the question still remains as to whether we can
28 overcome our unemployment problem by spending the
29 money we have to spend to overcome the hurdle in some
30 other way.



1 It is true that in areas of unemployment
2 there are established urban facilities, but this is
3 true also in the growing areas, where there are
4 established urban facilities. I am not trying to
5 introduce an element of levity into the discussion,
6 but I have heard it mentioned that personnel charged
7 with the responsibility of urban development in
8 particular places such as the Maritimes encounter
9 problems in trying to establish businesses in these areas
10 because of the personal preferences of the owners or
11 managers as to where they want to live.

12 In questions of this kind I think the so-
13 called private market might be departing from economic
14 rationality and there might be difficulties in this
15 connection. I do not know how significant they are.

16 Another aspect of this private market
17 mechanism or the role government should play -- and this
18 applies to quite a number of areas of government
19 intervention in the economy -- is very much in the form
20 of information. I am not so sure that the range of
21 alternatives that a private businessman or group of
22 business executives always considers is as complete as
23 we might like to think it is, and that possibly some
24 of the advantages of locating in some of the high
25 employment areas are not made known to these people.
26 Possibly information relating to the advantages of
27 locating in these areas is not as readily accessible as
28 it might be.

29 I think I am just saying that I am a strong
30



1 believer in the role of government as a supplier of
2 information, rather than private decision making, and
3 there is perhaps room for improvement here.

4 THE CHAIRMAN: Mr. Stewart, before you move on
5 I would say that I propose to have a short recess in
6 about five minutes. When we come back I would like to
7 deal with an area with which these people have particular
8 expertize. I refer to the sales tax. I think these
9 gentlemen will be very helpful to us on the question of
10 sales tax. Then, having dealt with sales tax we will
11 discuss the question of income tax and anything else
12 that is left. Would that suit you, Mr. Stewart?

13 MR. STEWART: Yes, admirably, Mr. Chairman.
14 In that event, I would just like to ask one or two
15 questions before we break with regard to paragraph 42
16 on page 16. There you indicate that we might achieve
17 a 10 per cent reduction in the corporate tax by
18 removing the unwarranted tax advantages now held by
19 certain forms of industry, particularly cooperatives,
20 and by repealing the present discriminatory tax
21 incentive legislation.

22 I wonder if you have worked out the
23 mathematics there. I suppose it would not be too
24 difficult to determine what a drop of 5 points in the
25 corporate tax might cost. But have you worked out the
26 compensating figures on the other side; and if so, what
27 are they?

28 MR. MALLETT: I think we believe that if
29 cooperatives were to be taxed as corporations there
30 could be a reduction of 3 percentage points in the



1 maximum rate for corporate income tax without any
2 loss of revenue. This accounts for 60 per cent of
3 our objectives here. We are not sure what the effect
4 of the removal of the incentives would be, but we
5 suggest that if these incentives were at all significant,
6 at least one per cent or more could be saved by their
7 removal.

8 This, then, brings it down to a very small
9 difference between the present maximum rate of 50 per
10 cent and the 45 per cent which we suggest can be
11 accomplished without any significant loss of revenue.

12 MR. STEWART: What did you attribute to one
13 point on the corporation tax, in dollars?

14 MR. MALLETT: I have not got that figure, sir.

15 MR. STEWART: You said that by taxing
16 cooperatives as other corporations are taxed, this
17 would give the equivalent of three points.

18 MR. McKICHAN: Perhaps I might address myself
19 to that question, Mr. Stewart. This was a fairly rough
20 and ready calculation because, as you know, the
21 exact figures of cooperatives profits are not treated
22 in the same manner as other business and are not
23 readily available. But we tried to apply a normal
24 profit percentage to the sales figures of cooperatives
25 so far as we have them and arrive at a profit figure
26 for cooperatives, and then we applied to this figure
27 the average rate of payment by corporations, which I
28 think is around 38 per cent, and deducted from that
29 our conjecture as to the present rate for the cooperatives,
30 and so arrived at this figure. As I say, it is a



1 fairly rough and ready calculation.

2 THE CHAIRMAN: Did you remember to reduce the
3 computed corporation tax on cooperatives by the
4 dividend tax credit which would then result, and which
5 would be substantial?

6 MR. McKICHAN: We made an allowance for that.

7 MR. STEWART: When you were thinking of the
8 tax that would be paid by cooperatives, did you take the
9 profit figures of industry as a whole, or the profit
10 figures for the retail trade, or what?

11 MR. McKICHAN: We took the profit figures of
12 industry as a whole. We realize that this is probably
13 not a too accurate manner in which to approach the
14 subject, because cooperatives are heavily concentrated
15 in certain sections of industry; but I think it is fair
16 to say that they are concentrated in areas which are
17 at least average, or perhaps even beyond average, in
18 profit rate.

19 MR. STEWART: My recollection is that a former
20 witness before this Commission, Professor Patterson,
21 produced some figures of the sort that you are now
22 mentioning, and I thought he produced two figures; one
23 was \$70 million and one was \$25 million. I think the
24 \$25 million may have been his estimate as to the amount
25 of tax which the government does not get by virtue of
26 the special treatment of cooperatives. But he was
27 not, as I recall, taking into account the point that
28 the Chairman made, that at the moment these revenues
29 of the cooperatives which are distributed to patrons
30 are taxed at the individual rates.



1 THE CHAIRMAN: His \$25 million would be very
2 substantially reduced if that were taken into account.

3 MR. STEWART: I should have thought that
4 three points on the corporate tax would amount to
5 very substantially more than \$25 million.

6 COMMISSIONER PERRY: Yes, about \$40 million a
7 point. We are dealing with something over \$100 million
8 here.

9 MR. McKICHAN: It may be there is a certain
10 divergence of opinion as to the profitability of all
11 corporations, which is an area of some uncertainty, I
12 think. The Canadian Manufacturers' Association comes
13 up with a figure, and other people come up with a
14 different figure.

15 THE CHAIRMAN: Well, we are guessing that
16 corporation tax would decline too, \$200 million, about
17 five percentage points. Perhaps less than that. Whether
18 incentives in cooperatives would make that, we have
19 some misgivings, although it is impossible to know how
20 much would accrue by way of incentives. Again, what
21 do you put into incentives? Do you include the
22 present depreciation system, the diminishing balance
23 method, to the extent that the allowances exceed what
24 is normally written into the company's books of account
25 and the financial statement? I suppose one would
26 consider that as an incentive, and it would amount to
27 a great deal of money.

28 MR. REID: I think that in this kind of
29 discussion we are dealing with a static model in which
30 a reduction of the corporate tax down to 45 per cent



1 takes place. But surely there is a general increase
2 in the availability of cash in corporations which will
3 have its own effect on economic activity, and as such
4 you have to put some "X" mark for the additional
5 revenues which should accrue if this is an effective
6 measure; otherwise we should not do it.

7 THE CHAIRMAN: Yes, but we are just dealing
8 with what you are putting before us. Is this a
9 convenient time to break, Mr. Stewart?

10 MR. STEWART: Yes, Mr. Chairman.

11 THE CHAIRMAN: We will stand over for ten
12 minutes and will come back and discuss sales tax.

13 --- short recess.
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1 MR. STEWART: Thank you, Mr. Chairman.

2 Gentlemen, I would like to turn now to what you have to
3 sales about sales tax, which starts at page 26 of your
4 submission and goes on to page 39. You indicate at
5 the outset that your members have had considerable
6 experience with the operation of the manufacturers tax.
7 I take it that your members also have had considerable
8 experience with the operation or application of retail
9 sales tax in this country. Is that correct?

10 MR. EATON: Yes.

11 MR. STEWART: You are nodding your head, Mr.
12 Eaton. I wonder if you would mind saying "yes" or "no".

13 MR. EATON: Yes.

14 MR. STEWART: So as the reporter can get the
15 answer. Do you find in fact that this retail sales
16 tax is difficult from a retailers point of view to
17 administer or deal with.

18 MR. EATON: Yes. I think that is a fair
19 statement. Obviously with every sales transaction
20 there has to be an extra transaction carried on. It
21 increases the burden of the retail trade to in fact
22 act as a tax collector.

23 MR. STEWART: If the overall rate of the
24 retail sales tax increased, as it would for example if
25 we had a federal retail sales tax as well as provincial,
26 would these administrative problems increase?

27 MR. EATON: The administrative problems for
28 the individual retailer wouldn't. I don't know why
29 they would necessarily increase. It would be just a
30 larger amount of money collected in relation to the



1 different transactions.

2 The problem of administration of this tax
3 collected at the retail level, the enforcement and of
4 audit and so on; but there would be so much more
5 money involved that procedures would have undoubtedly
6 to be improved.

7 MR. STEWART: You are not talking about
8 governmental problems as opposed to the retailers'
9 problems.

10 MR. EATON: Yes.

11 MR. STEWART: If the rates increased in the
12 way I suggested, do you think that this would have an
13 adverse effect on the retail sales?

14 MR. EATON: This is a question of degree, of
15 course, and it is a very difficult question to answer.
16 Maybe Mr. Reid would like to express a view on that.

17 MR. REID: Well, this is a question, of
18 course, as to whether taxes at the retail level of
19 consumption is a deterrent on retail sales. I think
20 while this is a question of degree we can go back
21 when the Government of Canada did impose such tax
22 at the retail level, they were excise taxes, it did have
23 a deterrent effect on retail sales.

24 MR. STEWART: Of course, this tax to which
25 you refer was a luxury tax, Mr. Reid, in a limited
26 area.

27 MR. REID: They were in a limited area but
28 I don't think this vitiates the principle.

29 THE CHAIRMAN: You don't know, of course,
30 whether that had any effect on total spending or whether



1 it shifted spending.

2 MR. REID: No. Presumably to some extent it
3 did shift spending. This is basic economic theory.
4 I don't think there is any doubt it would.

5 COMMISSIONER PERRY: If I might say so, those
6 taxes were put on at a very high level for a very
7 specific purpose to reduce the consumption of supply
8 of goods of which there were not going to be any further
9 supplied throughout the war and the thought was to try
10 to make this supply last as long as it could and if
11 we had not done this, then the rate would have been 50
12 per cent.

13 MR. REID: That is right.

14 COMMISSIONER PERRY: So it is rather an unusual
15 situation.

16 MR. REID: Yes.

17 MR. STEWART: I was really going on to say
18 this: Is **your** opposition to the retail sales tax based
19 in part on the fact such tax involves you in
20 administrative problems and in part because of the
21 possible effect of a federal retail tax on top of a
22 provincial retail tax there might be on sales, as well
23 as on the other considerations which you have in your
24 brief.

25 MR. REID: I think it is both.

26 MR. EATON: Also, I do not see any advantage
27 in shifting from the present tax structure.

28 MR. STEWART: I would like to go to some of
29 the points you raise with respect to sales tax starting
30



1 at page 27 of your brief.

2 You deal first of all with the question of
3 valuation for tax purposes and you suggest that
4 valuation problems under the present tax have perhaps
5 been exaggerated.

6 But let me ask you this: With a manufacturers
7 tax, and having regard to the different channels of
8 distribution which exist in this country now, are there
9 not bound to be inequities in the application of the
10 manufacturers tax.

11 MR. MALLETT: I think we have acknowledged
12 that, sir. Again to get back to our brief, we say that
13 or we believe that this has been overstated. After all,
14 the present manufacturers tax has been in existence
15 substantially at this rate since 1936 with the exception
16 of the Old Age security tax. It is only recently
17 there has been any particular serious objections raised.

18 MR. STEWART: Here is a point which I do not
19 think is mentioned specifically in your brief. Are
20 there not real problems under the manufacturers tax
21 with respect to the treatment of imported goods.

22 MR. MALLETT: I find it difficult to understand
23 that argument, sir.

24 THE CHAIRMAN: There has been a lot of
25 evidence to this effect before this Commission.

26 MR. MALLETT: As I understand, importers are
27 or rather tax is paid on the duty paid value. If it
28 is imported by a manufacturer he would presumably
29 import under his license and the sales tax will be
30 paid on his final sales price.



1 COMMISSIONER WALLS: Yes, but the value for
2 duty price, of course, does not include freight from
3 the country of origin and generally speaking if you
4 import a product you take into consideration all of
5 these costs and compare it with a like product produced
6 in Canada.

7 It does not include transportation costs and
8 then, of course, there are more items it does not
9 include. It does not include a provision of other
10 costs which are added to the domestic manufacturers charge.
11 Financing, advertising and all of those are chargeable
12 on a domestic produced product.

13 We have one country in the world which
14 recognizes this and adds 20 per cent in order to bring
15 it upto an equitable basis.

16 MR. MALLETT: Are you asking here as to
17 whether there is an inequitable situation on the
18 completed goods which are imported into Canada.

19 COMMISSIONER WALLS: I am talking about
20 completed goods imported into Canada and cases where
21 they are imported directly, let us say, by the retailer.
22 Many of those charges are not applicable to those
23 goods; sales expenses, advertising expenses, financing
24 expenses.

25 MR. MALLETT: We see this problem as more
26 closely related to the determination of customs tariff
27 rather than sales tax.

28 COMMISSIONER WALLS: No, I would not say
29 that at all. Would you have any objection to it being
30 provided that a like product be increased 20 per cent?



1 MR. MALLETT: I think a figure or a percentage
2 such as that which would apply in all cases would be
3 rather arbitrary.

4 MR. McKICHAN: Would 20 per cent be an
5 equitable increase in view of the duties paid on the
6 value? In other words, it is on the duty paid value.

7 COMMISSIONER WALLS: I am not in a position
8 to say whether it would be equitable at 20 per cent
9 or not. They arrive at that apparently to put it on
10 the same basis as the wholesale price in the importing
11 country.

12 MR. McKICHAN: In other words, you are
13 suggesting that the value for duty is too low on the
14 imported and finished goods at the present time.

15 COMMISSIONER WALLS: Well, I wouldn't say that.
16 I would say there are a number of charges which are
17 not included in value for duty that are included in the
18 value of the selling price for the domestic manufacturer.

19 MR. McKICHAN: Is this not really an
20 administrative problem. In other words, the valuation
21 should be altered on imported goods before the duty is
22 computed, I don't know whether it would be 20 per cent
23 or whatever the rate is, if this concerns specific
24 products. I wouldn't think it would be right to say
25 this should have general application.

26 THE CHAIRMAN: It would be a pretty fundamental
27 legislative matter, which would require a change in the
28 law. Maybe that is what you require. Maybe importers
29 should be licensed. There are various approaches.
30 Certainly the evidence we have had before the Commission



1 tends to show that there are cases where goods imported
2 bear less sales tax than like goods which would be
3 manufactured in the country.

4 MR. McKICHAN: This is a continuing duty.

5 COMMISSIONER WALLS: Yes.

6 MR. McKICHAN: The fact that there is 14 per
7 cent and a sales tax on top of it?

8 THE CHAIRMAN: Yes, because certainly sales tax
9 would be payable on the duty paid value.

10 COMMISSIONER WALLS: Also if goods are sold
11 either by a Canadian manufacturer or importer, agent
12 or broker, you have the same situation because if it is
13 an agent or broker in Canada the goods are billed
14 through to him and he rebuilds, he is treated as a
15 manufacturer and must be licensed; whereas if it is a
16 broker or importer for a foreign product he does not
17 have to be licensed and is not responsible for sales
18 tax. Therefore, you have a difference between the
19 situation of the domestic manufacturer and the importer.

20 MR. EATON: This council has no real position
21 on this except that we do not think any of these
22 arguments really have any relation or destroys our
23 position in terms of the measure at which sales tax
24 may be applied.

25 THE CHAIRMAN: I think it might tend to a
26 little bit because it is an argument in favour of
27 shifting the taxes from the manufacturer to a different
28 level.

29 The roughness or difficulty to which we have
30 referred, which has been put before us and our staff as



1 an example, of course, would be more pronounced, I
2 think I am safe in saying, at the manufacturers' level
3 than it would be at other levels. This is reasonable.
4 It is a just a question of how much importance you
5 attach to this and how you solve it. We feel there
6 are other arguments on the other side.

7 MR. REID: I am not sure whether we have on
8 the record a statement, whether it was made from here
9 or up there, sir, that in all cases there are not costs
10 like advertising and transportation which get into
11 the duty paid value because they do, in cases where a
12 foreign company carries out an advertising campaign
13 in this country -- the cost of that campaign is
14 certainly incorporated in the price of the goods to the
15 Canadian importer and therefore subject to sales tax.

16 THE CHAIRMAN: I think what you say would be
17 borne out in some cases and not borne in others.

18 MR. REID: That is quite correct.

19 THE CHAIRMAN: That is where the difficulty
20 comes in.

21 Certainly some cases look as though there is
22 unfairness. Now, as I say, that has to be examined
23 more carefully than we have been able to do up to now
24 but it looks as if there is something there, from the
25 statements that have been made to us.

26 MR. STEWART: Well then, under the manufacturers
27 tax, are there also not problems with regard to private
28 brand merchandise.

29 MR. McKICHAN: If I may address myself to that
30 question. Council and its membership has some members



1 who are concerned with private brands, but the great
2 majority of its members are not. We felt that in our
3 representational capacity, we could not, as a council,
4 form a point of view on the problem of private brands.
5 We felt it was rather a specialized problem. It was not
6 really one for council as a whole.

7 MR. STEWART: Would that mean, Mr. McKichan,
8 that you would not want to deal with the suggestion which
9 has been made by others to this Commission that the
10 retailer of private brand merchandise should be treated
11 as a manufacturer for sales tax purposes.

12 MR. EATON: Sir, I think you understand the
13 position of council. There are relatively few retailers
14 of sufficient size in this country who are involved in
15 private brand merchandising for this council to get
16 into this particular aspect, which involves competition
17 with any industry, we felt, was inappropriate.

18 If the Commission wishes to examine or
19 discuss this question with the companies which are in
20 the private brand business, of course, this is very ---

21 THE CHAIRMAN: Mr. Stewart, if I may
22 interrupt. This is exactly what I was hoping would
23 occur. I think the sales tax committee took a certain
24 position and promoted some debate, to the best of my
25 recollection, and that debate is now pretty old. We
26 certainly should be brought up to date on the pros and
27 cons. Perhaps our staff is doing that. If companies
28 have anything further they would like to say to us along
29 this line I would myself welcome hearing from them.

30 MR. REID: I think perhaps because of the



1 competitive elements involved in a public discussion of
2 this kind, that individual members of the council who
3 could be of some assistance to your staff in this area,
4 I am quite sure would be prepared to do so, as would
5 my own company, and prepared to do so in the future.

6 MR. STEWART: You suggest that if the level
7 of the sales tax here shifted to the wholesale level
8 there would also be valuation problems. Would these
9 problems not on the whole be less difficult than they
10 are with the manufacturers tax?

11 MR. MALLETT: I think that there is perhaps
12 a trend in recent years towards more direct sales
13 between manufacturers and retailers than there has been
14 in the past. As a result I think it might be said
15 that the comparative shift to the wholesale industry
16 is diminishing. Because of this, I think valuation
17 problems would tend to increase as time goes on if
18 tax was to be imposed at the wholesale level.

19 THE CHAIRMAN: If taxes were?

20 MR. MALLETT: Was to be imposed at the
21 wholesale level and accordingly we do not believe that
22 there are any arguments in favour of shifting to the
23 wholesale level sufficient to warrant such a change;
24 bearing in mind the administrative difficulties and
25 the cost of the transition and so on.

26 THE CHAIRMAN: Mr. Stewart, I wish you would
27 develop that a little further because what Mr. Mallett
28 has said leads me to the opposite conclusion that if
29 the wholesale industry is shrinking and we are going
30 to base sales from manufacturers on wholesale prices,



1 it is going to be increasingly difficult to fix on the
2 manufacturers level, but the wholesale level is the
3 one at which the taxes would be collected and therefore
4 it would be much easier.

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1 MR. STEWART: I am not sure that you
2 substitute a notional retailer for a notional whole-
3 saler.

4 THE CHAIRMAN: Practically all goods go
5 to retailers, but certainly all goods do not go to
6 wholesalers. In fact, as Mr. Mallett said, a
7 decreasing proportion is going to wholesalers.

8 MR. EATON: Perhaps we are not understanding
9 the question or the definition of wholesale level
10 properly.

11 THE CHAIRMAN: The retailer buying
12 directly from the manufacturer performs certain whole-
13 sale functions himself, and perhaps that should be
14 adjusted to bring it in line with others, but perhaps
15 there could be one over-all adjustment. One has
16 to seek wholesale prices, and if the wholesalers
17 disappear there will not be any wholesale prices.
18 What do you do then?

19 MR. MALLET: How do you determine whole-
20 sale price if there are no wholesalers?

21 MR. STEWART: You are interpreting price
22 to retailer and there certainly will be retailers.

23 COMMISSIONER WALLS: Another point you apparently
24 neglected to consider in regard to moving forward from manufacturers to wholesalers or
25 to retailers as the case may be, is the administrative
26 problem today in regard to end use. In other words,
27 you do not know what the end use of the product is
28 going to be in many cases. Let us take electrical
29 wiring, for instance. If that electrical wiring
30



1 goes into a television set the manufacturer has to charge
2 his tax, and the manufacturer who then builds the unit to
3 be put later into the cabinet is also tax free in that
4 case, and he again has to do as the wire manufacturer
5 until it comes to the final manufacturer, who turns out
6 the complete T.V., set in its cabinet, each of them
7 asking for a rebate in tax. Now you get away from all
8 of that if you move your tax forward, and that is one
9 point to which you did not give consideration in your brief.

10 MR. POLLACK: Mr. Chairman, when we talk
11 of moving the sales tax forward to the point where
12 it is being levied at the point of sale, you then
13 become involved with hundreds of thousands of tax
14 collectors in the form of our sales people.

15 THE CHAIRMAN: Three hundred thousand.

16 MR. POLLACK: Is it desirable from an
17 administrative point of view to have these
18 millions of dollars being collected by sales people?
19 From an administrative point of view, is it not more
20 desirable for the tax to be computed by a smaller
21 number of people, people perhaps more qualified?

22 THE CHAIRMAN: Unless I am off the track,
23 you are. I thought we were discussing at this time
24 a shift from the manufacturer to the wholesale level,
25 and I thought we were going afterwards to discuss

26 ---

27 MR. POLLACK: I beg your pardon; you are
28 right.

29 THE CHAIRMAN: You are going right to the
30 retailer; you are racing ahead.



1 MR. STEWART: Mr. Chairman, I am trying to
2 deal with the question of evaluation at the wholesale
3 level.

4 Dealing still with the question of evaluation,
5 would these problems of evaluation not be pretty
6 well eliminated if the tax were moved forward to the
7 retail level?

8 MR. MALLETT: To the retail level, sir?

9 The price or the valuation problem would be
10 reduced in a tax at the retail level and perhaps it
11 would be less significant if the tax were at the
12 wholesale level. Again, we get back to the point
13 where this one consideration is sufficient to recommend
14 the shift.

15 MR. STEWART: Then let me move to the
16 question of pyramiding with which you deal on page
17 28.

18 MR. EATON: Mr. Chairman, there was one
19 statement on which I should elaborate. Are we at the
20 retail level yet?

21 THE CHAIRMAN: We are going back to it.

22 MR. EATON: There was one statement made
23 in connection with Mr. Pollack's remarks. It was
24 suggested that there were 300,000 people involved
25 at the retail level. Mr. Pollack was pointing
26 out that there were many more than 300,000 people
27 on the basis that every one of the people who conclude
28 a sales transaction -- that is the employees of these
29 300,000 --are involved.

30 THE CHAIRMAN: Three-quarters of a million



1 employees ---

2 MR. EATON: --- yes, or a million who are
3 actually in a position of collecting the tax.

4 MR. STEWART: On the question of pyramiding,
5 you suggest on page 28 that this problem can basically
6 be looked after by the normal forces of competition
7 when the tax is at the manufacturers' level. Would
8 it be the fact that the problem again would be reduced
9 if the tax were shifted to the wholesale level and
10 would be eliminated if the tax were shifted to the
11 retail level?

12 PROFESSOR POAPST: Yes, I think we say
13 that if you pick it up at the retail level that cannot
14 very well be pyramiding, but I think this argument
15 has been put forth to you a number of times. We
16 do not find it to be quantitatively as significant
17 as do perhaps the advocates of the shift.

18 THE CHAIRMAN: That does not quite tie
19 in with another part of your submission, I suggest,
20 when you speak about the rigidity of manufacturers'
21 prices. But you suspect if sales tax was lifted
22 from the manufacturer level their prices would not
23 go down?

24 MR. REID: Would not necessarily go down.

25 MR. EATON: In all cases.

26 THE CHAIRMAN: Therefore if that is true,
27 I think it supports the position that traditional
28 markups cause some pyramiding. We have had a
29 great deal of difficulty with this matter. Many
30 witnesses have suggested to us that pyramiding in fact



1 applies completely throughout and that it involves an
2 awful lot of money. We have asked them then whether
3 profits of retailers and wholesalers would decline if
4 pyramiding was limited, and in most cases they have
5 said yes. Some have even gone so far as to give
6 an estimate. Of course, we have also put forward
7 what you have had to say, but I am a little impressed
8 by the fact that elsewhere in the brief you speak
9 about the rigidity of manufacturing prices and if
10 there is that rigidity I would have thought there
11 would remain some pyramiding.

12 MR. EATON: In reference to the possible
13 rigidities in the manufacturing industry, it is related
14 to a discussion of the degree of concentration within
15 an industry, and in the retail business we do not
16 have any concentration. In other words, there are
17 many more people in the marketplace as retailers
18 competing against each other. If rigidity may be
19 one of the things that comes out of the concentration,
20 as suggested on page 32, certainly then we feel it is
21 very much less important at the retail level.

22 THE CHAIRMAN: Do you not take a markup
23 which is virtually always the same pretty well
24 throughout the land, and then mark down when the goods
25 are not sold?

26 MR. EATON: The people who do this we hope
27 not to have with us too long.

28 MR. POLLACK: I think there is some
29 misconception about this idea of rigid markups.
30 When you are in the retail business and you operate



1 to make a profit, you try to sell the merchandise
2 at a given price which will be acceptable to the
3 consumer more than what might conform to a desired
4 market. It is fallacious to say that dresses are
5 going to sell at a 42 per cent markup when the
6 man next door is content to sell his dresses at a
7 dollar or two less thereby forcing you to operate at
8 a 37 or 36 per cent markup.

9 The idea of fixed markups stems from the
10 concept that we have in retailing that everything
11 is pre-retailed.

12 That necessarily involves consideration of
13 a desired markup, but it does not necessarily mean
14 that we are to sell the merchandise at the desired
15 markup, and very often we do not.

16 There I would say that if we want to be
17 competitive -- and the competition in the public's
18 mind means selling merchandise of a certain kind at
19 a certain price, people are coming in with preconceived
20 ideas as to the worth of an object. This object
21 may be worth \$2.98 in their minds or it may be worth
22 \$3.98. They are not thinking in terms of markups
23 and we have to acknowledge their preconceived ideas
24 as to the worth of an object. If it has to be sold
25 at 33, 32, or 26 or 27 per cent markup, we do that.

26 THE CHAIRMAN: You have moved me from
27 shoes to dresses, and I think dresses support your
28 statement very well because there is a great deal
29 of competition from small stores all over the place.
30 There is a great deal of fluidity in that area.



1 With regard to shoes, I think there is a great deal
2 of rigidity.

3 MR. POLLACK: There may be a greater degree
4 of rigidity in the price line of shoes because in
5 the shoe industry we find that there is a far smaller
6 number of producers than there might be in the
7 dress industry and though we do not countenance in
8 our country price maintenance and instruction to sell
9 at a given price, nevertheless there may be some
10 tendency to conform to certain suggestions that may
11 be made with regard to retail price at which the
12 goods might be sold.

13 THE CHAIRMAN: Then when you merchants get
14 the shoes I think probably you all put on the same
15 markups and put them on your shelves. Am I right?

16 MR. POLLACK: The markup at which we would
17 retail our shoes depends upon the kind of operation
18 one has, the kind of store one conducts and the
19 competition in the given area. There might have
20 been a time some years ago when it was possible to
21 obtain a higher markup on merchandise, particularly
22 shoes, than is possible today. The competition has
23 increased to the point where from day to day, even
24 in shoes, you may be obliged to alter your preconceived
25 ideas of markup.

26 THE CHAIRMAN: There is no traditional
27 markup throughout the land with regard to shoes?
28 I thought there was but that is not true?

29 MR. EATON: If you could look at the retail
30 industry essentially as the purchasing agents for the



1 consumer, the buyers for the retail industry are
2 thinking in terms when they go on the market of
3 requiring something the consumer wants, and what he
4 would be willing to pay for it. The shopping that
5 takes place in the marketplace is done with the idea
6 of trying to find that particular article and to
7 procure it at a cost which would allow the retailer
8 to have a margin to cover his cost of distribution.
9 It is an averaging process because in certain articles
10 a retailer may be able to buy and sell at a certain
11 place, a retailer may be able to buy one article at
12 this price and maybe somewhere else he may be able to
13 buy a somewhat different article at maybe less cost.
14 It is the selling price that is in the mind of the
15 retailer when he shops the market.

16 COMMISSIONER GRANT: Your first consideration
17 there would be to cover what you must include in
18 overhead and your second would be what your margin
19 of profit would be?

20 MR. EATON: What I was suggesting was,
21 assuming a retailer is in the position of being the
22 purchasing agent for the customer, assuming there is
23 a certain type of article which in the opinion of the
24 retailer would have a reasonable sale at \$10, now
25 it is possible that that article or an assortment
26 of that article might be bought in one place at
27 around \$7 and in another place at around \$6.50, and
28 so on. Quite obviously an assortment of those
29 articles has to average out in such a way that
30 the retailer's overhead and cost and handling are



1 covered on that basis, but it does not mean that
2 an article costing \$7 will be marked higher retail
3 than that marked \$6.50. Obviously you do not buy
4 for \$12 and \$10 and sell at the same price, but ---

5 THE CHAIRMAN: You do not mark them all
6 up at the same level?

7 MR. EATON: No.

8 THE CHAIRMAN: I was suspicious that you
9 did.

10 MR. REID: I think some of the discussion
11 which takes place on the retail markup and the use
12 of the word "pyramiding" which is an image-making
13 word, is a little academic. Within the retail
14 industry the profit on the sales of the industry
15 probably varies somewhere between, in the profit-
16 making group, one per cent and something around three
17 per cent, which is distinctly less than almost any
18 other form of economic enterprise in Canada and perhaps
19 it is also a reflection of the competition within the
20 industry. But as Mr. Eaton has said, what the
21 retailer tries to do within his particular competitive
22 situation is to establish an over-all market maintained
23 markup which is related to his cost structure, which
24 is also interpreted in percentage terms, and therefore
25 in a case of thirty per cent operating profits over
26 a store he may be striving for thirty-three or thirty--
27 four, or whatever kind of objective he budgets for,
28 and maintain the markup. But within the markup
29 structure there are certain characteristics which
30 apply to individual merchandise which vary the markup



1 involved. Some of these things, of course, are
2 more themselves, accepted as price points at which
3 particular goods are sold.

4 Secondly, there is the characteristic of
5 the merchandise. There are cases in which you make
6 greater markdowns than in others. These are some
7 of the elements that go into what is a varying
8 markup structure across the whole spectrum of retail
9 merchandising.

10 COMMISSIONER GRANT: You probably would
11 not eliminate, Mr. Reid, from that the element of what
12 the traffic will bear.

13 MR. REID: That is quite right, but because
14 the traffic is so competitive it does not bear
15 enough usually, and this is the reason why retailers
16 do not have as great a return on sales as most other
17 forms of economic enterprise.

18 THE CHAIRMAN: I thought markups were fairly
19 uniform, but of course I recognized that gross profits
20 were not, and gross profits result from markdowns which
21 every merchant must have. I have always thought
22 his success was to some extent measured by the degree
23 to which he had marked down his merchandise, and it
24 must be an indication of how successful he is in
25 disposing of his products. But you are telling
26 me there is no such thing as a traditional markup,
27 which is only a starting point after all. Does
28 one not start in a department, say, by marking up
29 the goods in that department so much? One buys goods
30 in order to get the markup to sell at \$6.98, or



1 whatever it is. He may sell them at \$5.50 and
2 have to make a markdown; I know that well, but in the
3 first instance does he not start with a more or less
4 traditional markup?

5 MR. EATON: There would be a maintained
6 markup goal for a total store or for a department
7 within a store. It is different in food than in
8 millinery, for example.

9 COMMISSIONER WALLS: May I use the
10 illustration you use in paragraph 78 where you talk
11 about a fixed margin of 20 per cent? You also suggest,
12 for simplicity, that you use the sales tax as being
13 10 per cent instead of 11 per cent. Let us say the
14 manufacturing cost of the item was \$10. and you had a
15 sales tax of \$1, that makes \$11 which with your 20%
16 profit makes your total sale price \$13.20. You are
17 pyramiding tax to the extent of 20 cents, and 20 cents
18 is 1.5 per cent on the sales price of \$13.20 that could
19 be gained by the government if the tax was at the retail
20 level. That 1.5 per cent is not something that you
21 can discount readily.

22 PROFESSOR POAPST: It is a question of
23 arithmetic, I think. So far as pyramiding is
24 concerned as a tax problem, it is the pyramiding of
25 the tax.

26 COMMISSIONER WALLS: That is right.

27 PROFESSOR POAPST: As this example works
28 out, the pyramiding of the taxes is an amount equal
29 to two cents.

30 COMMISSIONER WALLS: You are dealing with the



1 item that been increased by a dollar. I am getting
2 away from that. I am dealing with the initial
3 item at \$10. The initial item at \$10 -- forget
4 this example you gave which works down to 2 cents and
5 0.014 because you are only giving then the dollar
6 increase on the manufacturers' price. Let us take
7 the original manufacturing price of \$10.



1 If you add the \$1.00, the sales tax, it makes \$11.00,
2 and you use your own percentage of markup, which is
3 20 per cent, then 20 per cent of \$11.00 is \$2.20, is
4 it not? You add that to the \$11.00, and you have
5 \$13.20. The sales tax, the pyramiding of sales tax
6 is 20 cents.

7 PROF. POAPST: What we are saying here is
8 that we assume that the amount of tax which one collects
9 is going to be the same at whichever level one collects
10 it. We are saying that in considering the two levels,
11 whether it is the manufacturers' level or the retail
12 level, we are taking the purpose given, of the
13 collection of a certain amount of revenue. So when we
14 think in terms of what would be collected at the retail
15 level in tax, we say this would be the same amount as
16 if you collected it at the manufacturers' level.

17 COMMISSIONER WALLS: But this paragraph is
18 not dealing with that. This paragraph is dealing with
19 the fact that pyramiding has no great implication based
20 on a manufacturers' sales price. I am saying that it
21 has an implication of 1.5 per cent.

22 THE CHAIRMAN: Are we correctly using the term
23 "pyramiding"? I think I agree with you, Mr. Walls,
24 in feeling that the word "pyramiding" means profit on
25 sales tax.

26 COMMISSIONER WALLS: That is what I say.

27 THE CHAIRMAN: I am not sure that these
28 gentlemen are using it in the same way. I want to be
29 sure about this.

30 PROF. POAPST: We are talking about the extra



1 that you would charge because you apply a given markup --

2 COMMISSIONER WALLS: That is right.

3 PROF. POAPST: -- to a tax-included price.

4 THE CHAIRMAN: You have \$1.00 tax here and
5 a 20 per cent markup, so, as Mr. Walls says, the profit
6 on the tax is 20 cents; isn't that right?

7 MR. EATON: I wonder, Mr. Chairman, if I can
8 perhaps pin down this business of the 20 per cent.
9 Although the industry typically uses percentages as
10 guide lines, actually the reason there is such a thing
11 as a 20 per cent markup established as a guide line is,
12 in effect, on a \$10.00 article having a margin of
13 \$2.00 you have costs that leave you, presumably, with
14 some kind of a profit margin.

15 It is quite conceivable that if there were
16 more inflation of the manufacturers' price, the
17 \$2.00 would still do the same job. The 20 per cent --
18 or whatever is designated -- might become 10 per cent
19 as the standard practice, because essentially each
20 transaction has to produce enough dollars to cover the
21 cost. As a matter of custom -- and it is the way
22 the trade works -- percentages have become established,
23 but obviously percentages do not pay the bills; you
24 have to collect dollars to pay the bills.

25 MR. REID: The numbers would change, but
26 the dollars would remain the same. If they did not
27 remain the same, most of the Canadian manufacturers
28 would not be in business to serve the Canadian people.

29 PROF. POAPST: Our illustration includes the
30 sentence:



1 "Consider the case where the
2 manufacturers' sales tax has remained
3 constant for some time so that there
4 has been opportunity for the forces
5 of competition to eliminate the markup
6 effect."

7 What we are starting with is an equilibrium
8 position, and then we are saying, "Consider an increase
9 in price and the effect that an increase in price has
10 upon pyramiding the tax". We are starting with the
11 original pyramiding wiped out by the forces of
12 competition, and from this equilibrium position we are
13 considering what is happening when there is an increase
14 in price, and this would be eliminated subsequently
15 by forces of competition again, although that would take
16 time.

17 When we start from an equilibrium position
18 we only consider, in effect, the two cents, because we
19 have said we have at least had that tax before but
20 the sources of competition have eliminated it.

21 COMMISSIONER PERRY: As John Due puts it, this
22 makes the assumption that it was the pyramiding that
23 was eliminated. It may not have been at all; it may
24 have been that your markup was lower than it otherwise
25 would have been and the pyramiding is still there.
26 In other words, you cannot make any assumption as to
27 the composition, by your argument. Therefore I must
28 say that the pyramiding argument does not impress me
29 very much at all. I assume that people must have
30 a certain margin of profit to stay in business, whether



1 they get this by pyramiding a tax or not, and if the
2 tax comes off, that margin of profit will have to
3 remain.

4 MR. REID: It will change the percentage
5 numbers, but the dollars still have to be there.

6 COMMISSIONER PERRY: The dollars still have to
7 be there, and if this were not so the forces of
8 competition would be knocked down. The assumption is
9 that competition determines the margin of profit at
10 whatever level you want to fix it at the moment.

11 MR. STEWART: I would come back, however, to
12 my original question on this particular point. Granted
13 the force of what Mr. Perry has just said, if pyramiding
14 does exist, and you concede in paragraph 76 that it
15 does, then is the effect of pyramiding not reduced if
16 the tax is moved from the manufacturers' level to the
17 wholesale level, and still further reduced if it is
18 moved from the wholesale level to the retail level?

19 PROF. POAPST: I think we would say yes, but
20 we are dealing with magnitudes of the order illustrated.

21 MR. STEWART: The question of magnitude
22 seems to me to be one of some difficulty, but I think
23 we have perhaps dealt with this point sufficiently.

24 Your next heading at the top of page 29
25 relates to the question of publicity given to the amount
26 of the tax. There I would simply like to ask you this.
27 You obviously consider that publicity is unnecessary.
28 If the tax were moved to the wholesale level, I take it
29 there would be no more need for publicity than there
30 is at the manufacturers' level. If the tax were moved



1 to the retail level, I take it there need not be
2 publicity. In other words, publicity is not an essential
3 element of a retail sales tax?

4 MR. MALLET: I think the purpose of raising
5 this point was that this has been an argument in favour
6 of a retail tax, that for some reason publicity is a
7 desirable feature, which we have questioned.

8 MR. POLLACK: The tax itself is the publicity.

9 MR. STEWART: I am putting to you now that
10 you can have a retail sales tax and eliminate
11 publicity altogether.

12 MR. POLLACK: We would agree with you, Mr.
13 Stewart, but at the same time this would mean that
14 you were not getting this alleged advantage of publicity.
15 All we are saying is that one of the arguments stated
16 in favour of a retail sales tax is to acquaint the
17 consumer on a purchase-by-purchase basis of the tax
18 he is paying. We are questioning the advantage, not
19 of publicity of taxation generally but of publicity in
20 this particular form. It might have been suitable
21 200 years ago, but in our opinion it is not suitable
22 now.

23 COMMISSIONER WALLS: Having in mind previous
24 representations, you would have no objection to a
25 retail sales tax where it was a hidden tax? Am I
26 right in that?

27 PROF. POAPST: What we are saying is --

28 COMMISSIONER WALLS: I was asking a question.

29 MR. STEWART: Is there no objection to the
30 hidden character?



1 MR. REID: I think this is only one of the
2 elements of the objection which is put forward to a
3 retail sales tax. There are many others which are
4 described in the brief.

5 PROF. POAPST: This was an objection put
6 forth to the manufacturers' sales tax.

7 THE CHAIRMAN: To answer your question, Mr.
8 Walls, I think they would have objection to any
9 retail tax, but this is only one of the points
10 made?

11 MR. REID: Yes.

12 MR. STEWART: Item 4 at the bottom of page
13 29 deals with the question of disturbance to price
14 structures. Item 5 on page 30 deals with the question
15 of consolidation with provincial sales taxes. Mr.
16 Chairman, it did not seem to me that I need ask any
17 questions under those two particular headings.

18 THE CHAIRMAN: No.

19 MR. STEWART: I will then go on to the
20 problems of transition, and there ---

21 THE CHAIRMAN: Just a moment, Mr. Stewart.
22 We will see whether we have any questions regarding
23 those two points which you are not dealing with. I do
24 not have any questions. Does anybody else have any?

25 COMMISSIONER WALLS: There is one question
26 that I have with regard to paragraph 5. You might
27 wish to deal with it later. You say:

28 "Extending the sales tax to
29 services would widen the area over
30 which agreement would have to be reached".



1 Do you recommend the taxing of services in
2 preference to an increase in commodity sales tax,
3 irrespective of the level of the commodity sales
4 tax?

5 MR. REID: I think, sir, that with due regard
6 to the fiscal requirements of the provinces, and a
7 certain acceptance, the sales tax should not apply in
8 some areas. There is a social acceptance of this. This
9 is a question of degree. There do not appear to be
10 too many valid social or economic reasons why services
11 should not be taxed. We are not strongly recommending
12 this, but we cannot see particularly the arguments for
13 exemption, particularly since the service sector in the
14 economy, and particularly in the whole area of
15 consumer expenditures, has steadily been increasing. It
16 has the usual accompaniment of rising incomes. It
17 is the product in one specific area of increased
18 consumption of complex, durable consumer goods where
19 services of repair have to be performed after a period
20 of time, and this is a growing business. So we really
21 do not see why this area is particularly exempt. We
22 also point out that the area of manufacture, the point
23 of manufacture and the point of retail sales in this
24 case are identical; there is no difference.

25 COMMISSIONER WALLS: I take it from your
26 remarks that you would give preference to a tax on
27 services rather than, if it was found necessary,
28 increase the tax on commodities?

29 MR. EATON: Yes, I think this is the implication
30 of what Mr. Reid has said.



1 MR. STEWART: Then you go on and deal with
2 certain transitional problems which you suggest would
3 arise if the level of the tax were changed. On page
4 33, in paragraph 91, you estimate that the transition
5 from the manufacturers' level to the retailers' level
6 would result in an absolute loss of tax revenue of at
7 least \$300 million. Would you anticipate that if there
8 was a shift from the manufacturers' level to the
9 wholesale level this transitional loss would be anything
10 like that amount?

11 MR. MALLETT: It would be a smaller minimum
12 because this is calculated on the assumption that there
13 would be a time delay between the point of imposition
14 of a retail tax as opposed to a manufacturers' tax.

15 Assuming that a particular article of
16 merchandise moves from a manufacturer to a wholesaler
17 or a retailer, that \$300 million is based on the
18 total lapse of time, whereas the wholesale tax would be
19 based on perhaps only half of it.

20 THE CHAIRMAN: Less than that, I would think.
21 Your computation is with regard to what sales tax is
22 included in retail inventories, is it not?

23 MR. MALLETT: That is right.

24 THE CHAIRMAN: Then that would not change at
25 all.

26 MR. MALLETT: I do not understand the point,
27 Mr. Chairman.

28 THE CHAIRMAN: It would only change as far
29 as wholesale is concerned.

30 MR. MALLETT: That is right. From there on the



1 tax loss would be probably less, though we have made no
2 attempt to calculate it.

3 THE CHAIRMAN: I would think it would be very
4 much less, because most of your \$300 million, I would
5 think, from what you say here, is the tax on retail
6 inventories, is it not?

7 MR. MALLETT: Yes.

8 COMMISSIONER WALLS: Why would there have to be
9 a loss at all in this transition period? Why not take
10 inventories of retail stores on the day of transition
11 and credit them on the basis of between 7 and 8 per cent,
12 which is considered to be the equivalent of the 11 per
13 cent tax, and allow them the next day to start charging
14 the full retail sales tax?

15 MR. MALLETT: This would represent a loss
16 of revenue ---

17 COMMISSIONER WALLS: You say it would be an
18 absolute loss, but I say it would only be a temporary
19 loss.

20 COMMISSIONER PERRY: How do you get it? It
21 has gone forever.

22 COMMISSIONER WALLS: No, not if you take the
23 inventories on the day of transition and the next day
24 they charged the full retail sales tax ---

25 COMMISSIONER PERRY: This would be absorbed
26 by the credit you have allowed.

27 COMMISSIONER WALLS: That would not be a loss.

28 COMMISSIONER PERRY: Well, this is a private
29 argument. I agree with the brief when it says there
30 is a transitional loss of revenue, but I am not



1 particularly impressed with this aspect in the brief
2 because there are other things that could be done. But
3 you have raised some interesting points with regard to
4 the transition, one of them involving the extent to
5 which prices would change. I am not sure that everyone
6 making the calculation of the new retail sales tax
7 rates that would be required has not fallen into a trap
8 here in failing to take account of the fact that
9 retail prices would come down by \$1 billion or so once
10 the manufacturers' tax were off. In other words,
11 instead of 7 or 8 per cent, it may require 9 per cent to
12 produce the same amount of revenue, and it may also
13 require that the provincial rate be increased to maintain
14 the same amount of revenue.

15 MR. REID: That is with certain adjustments to
16 the manufacturers' selling price when his tax is
17 removed, and on your assumption ---

18 COMMISSIONER PERRY: The other fact which I
19 think is damaging from your point of view is that if
20 prices do not come down, the rate of tax could be lower
21 than what is assumed here.

22 MR. REID: I would agree that prices would
23 come down where the replacement cost to the retailer
24 remained the same from the manufacturer.

25 COMMISSIONER PERRY: Just let me ask you this.
26 In making your calculation of the amount that would
27 produce the same revenue, did you go to the lower
28 price of retail sales, or did you assume the same?

29 MR. MALLETT: We assumed that the sales price
30 would be the same. I am not sure this is too important



1 a point, because in making a calculation of this type
2 we were dealing with very rough figures.

3 COMMISSIONER PERRY: You cannot overlook
4 \$1 billion though. Mr. Howe was not even permitted to
5 overlook \$1 million.

6 MR. MALLETT: This represents only a factor
7 of 11 per cent by the loss on the retail selling price.

8 COMMISSIONER PERRY: It would be more than
9 that on the retail sales of taxable goods. If you
10 knock food out of your retail sales ---

11 MR. MALLETT: Food is presently exempt, from
12 the manufacturers' point of view.

13 MR. POLLACK: You say, Mr. Perry, that you are
14 assuming that prices will come down?

15 COMMISSIONER PERRY: I do not know whether I
16 am assuming that or not. I am saying we now have
17 \$1 billion of manufacturers' tax which we are assuming
18 will come off. Presumably this will have some effect
19 on prices.

20 MR. POLLACK: I do not think it will have too
21 much effect on prices at the manufacturers' level.

22 THE CHAIRMAN: Do you think manufacturers'
23 profits will go up \$1 billion?

24 MR. POLLACK: No, I do not think manufacturers'
25 profits will go up accordingly, but I think manufacturers
26 might tend to modify the product they are producing to
27 the extent that they are in the position to make a
28 different kind of product and to sell at the price
29 which : used . to prevail when they calculated the
30 sales tax that had to be charged.



1 We said a minute ago that there are acceptable
2 price points. There are built-in consumer ideas in
3 the merchandise that we sell. So that if we are going
4 to sell ^a \$2.98 item, it is conceivable we will still
5 go to selling a \$2.98 item but it will be perhaps a
6 slightly better item because the manufacturer will be
7 in a position to produce an item which he can sell
8 at \$2.98 because of the elimination of the sales tax.
9 So that it does not follow necessarily that there
10 will be a reduction. Then you say, of course, you might
11 be able to charge a lesser retail sales tax to
12 compensate for the loss in the manufacturers tax. If
13 the retail sales tax, which is meant to apply after
14 the elimination of the manufacturers tax, is at the
15 level of 9 per cent or something like that, to which you
16 add the provincial tax which now prevails or does in
17 my province, when you are making a charge to people
18 in the neighbourhood of 15 per cent minimum and perhaps
19 18 per cent, I think you are going to find a reluctance
20 and perhaps a reduction in the sale of merchandise at
21 the retail level.

22 COMMISSIONER PERRY: I think this is another
23 problem. I mean, you are propounding a pretty
24 revolutionary sort of principle here and it sounds to
25 me as though you are saying no matter what you do
26 with the tax on industry, manufacturing methods are
27 not going to change.

28 THE CHAIRMAN: That is not the way I interpret
29 Mr. Pollack's remarks. I think he is confirming the
30 fact of what you have stated. Certainly the products



1 will be adjusted. I think that could be in price but
2 the final effect of the whole -- unless the consumer
3 as a whole spends more money, is that the price at that
4 level will come down because there are going to be
5 further taxes added. After that the consumer has
6 nothing to do but pay these further taxes so unless the
7 total consumption expenditure is going to increase,
8 the net result will be a decline in price from the
9 manufacturer on to the retailer.

10 MR. POLLACK: Or a decline in the volume of
11 merchandise sold.

12 COMMISSIONER PERRY: That, compared to the
13 present pyramiding, is nothing at all.

14 PROF. POAPST: Perhaps I have got the
15 arithmetic wrong here.

16 COMMISSIONER PERRY: I was just wondering
17 whether in making your calculation of the 7 to 8 per
18 cent rates, which are not usual, these are the sort
19 of figures that nearly everyone produces, the
20 assumption would be to the effect of the removal of
21 the manufacturers tax on retail selling prices, if they
22 come down by \$1 billion, then obviously this means you
23 are going to have a higher rate than 7 or 8 per cent
24 to obtain the same sort of revenue.

25 PROF. POAPST: We are talking rate, not
26 questioning whether the price to the consumer ---

27 COMMISSIONER PERRY: No, I am just talking
28 arithmetic.

29 MR. REID: If I may put it both ways. This
30 is the only approach which is possible in the arithmetic.



1 (a) they don't come down at all or they come down the
2 full amount. In making this kind of estimate, he made
3 it one way and you are making it another. You cannot
4 make any guess as to how much they are going to come
5 down.

6 THE CHAIRMAN: I am sure that if you start
7 with a constant expenditure, it seems to me that that
8 is the only fair approach to it, so much is going for
9 taxes. You have so much less for goods and services.
10 If you take your taxes on that part, you base the
11 goods and services on which the taxes are going to
12 be applied, it is going to be a lesser base than if
13 some of these factors are only based on ---

14 MR. REID: Quite right.

15 MR. STEWART: Mr. Chairman, if there are no
16 further questions from the Commission on this transitional
17 subject, I would like to ask at this stage -- it is
18 perhaps not the most logical place actually but I put
19 in even in regard to the time limit. Your brief is
20 concerned basically, it seems to me, with the relative
21 merits of the manufacturers tax and the retail tax.
22 You discussed to a very limited extent the possibility
23 of moving this tax to the wholesale level. I wonder
24 if you could perhaps indicate what difficulties you
25 see with a sales tax at the wholesale level.

26 MR. MALLETT: I am afraid our brief was
27 prepared primarily from the point of view of discussing
28 the shift from the manufacturers to the retail level
29 rather than considering in any great detail shifting
30 to the wholesale.



1 This would probably have less direct effect
2 upon the retail industry. I am afraid we have not gone
3 into it in great detail.

4 MR. EATON: If the Commission is particularly
5 interested in council's view of this matter, it could
6 be stated. It has not been developed in the brief. If
7 you would care to have a supplementary submission made --

8 THE CHAIRMAN: I wish you would because it
9 seems so very clear that the right point for economic
10 purposes to impose a sales tax is as close to the
11 consumer as one can possibly get.

12 We are attempting to tax consumption. That
13 is the best place to do it.

14 I recognize there are 300,000 people who have
15 to be collectors plus their employees that have to be
16 concerned. There are difficulties in it.

17 Certainly, if you go to the other extreme,
18 you get as far away from the consumer as possible and
19 therefore the impact of the tax is going to be
20 extremely uneven, I think, because it is concerned
21 with markups and methods of distribution.

22 If you go to the intermediate position you
23 have not satisfied either. Although I agree you are
24 fairly close with the wholesaler, you cannot the
25 desirable end and put it right on the consumption which
26 is what you get at the retail. There may be some
27 difficulties and I think the number one difficulty is
28 valuation and certainly when you are trying to set
29 your prices on a wholesale level, you have got a
30 problem.



1 You have got other problems which come about
2 at the manufacturing level, some of which will be
3 removed and some of which will be alleviated.

4 I agree that the wholesale level imposes
5 perhaps some other ones. But at the moment they do
6 not look quite as formidable as at the manufacturers.

7 One thing I clearly recognize and I think
8 you must acknowledge is that so far as the retailers
9 carry out wholesale functions, there would have to be
10 some kind of adjustment made for that or otherwise they
11 would get an unfair break in the amount of taxes to
12 the wholesaler.

13 I would think certainly that any help you
14 can give us would be greatly appreciated. I really
15 cannot think of an organization which should be able
16 to render such good assistance on this point as yours.

17 MR. EATON: We will be very happy to.

18 COMMISSIONER WALLS: Along that line, to what
19 extent does your members or organization have retailers
20 carry their own wholesale houses?

21 MR. EATON: That is something, I am afraid, I
22 cannot answer. I think you would mean trying to
23 discuss individual companies and how they were set up,
24 when you say to what extent do they carry their own
25 wholesale houses.

26 COMMISSIONER WALLS: The larger retailers
27 have pretty well set up their own wholesale and
28 distribution points.

29 MR. EATON: That is correct. Certain lines of
30 goods the retailer -- the national retailer may carry



1 out distribution or set up distribution points. In other
2 cases manufacturers may be supplying this distribution
3 function. I couldn't answer that for all our members.
4 It is a question of economics.

5 COMMISSIONER WALLS: It is quite a big factor
6 among your membership.

7 MR. EATON: Among some individuals in our
8 membership, yes. It depends on where they are located
9 and how widespread.

10 THE CHAIRMAN: Would a simple rule not be to
11 say who buys from a manufacturer may be deemed to be
12 wholesaling.

13 MR. EATON: It becomes very difficult to
14 define, if you are speaking of a manufacturer who has
15 his own distribution outlets or distribution warehouses
16 across the country and is filling in on a day to day
17 basis a retailer who is buying the product.

18 THE CHAIRMAN: There are some manufacturers
19 that in fact are wholesalers.

20 MR. EATON: That would depend on what was
21 meant by the wholesaling process. An intermediate
22 factor may be somewhere away from the manufacturing
23 plant.

24 THE CHAIRMAN: I am thinking in terms of moving
25 bulk, who is buying goods in large quantities and
26 selling in small.

27 MR. REID: Every retailer does that, whether he
28 is large or small.

29 MR. STEWART: Mr. Chairman, the material
30 which appears on page 34 to 39 of this brief seems to be



1 quite straight forward.

2 THE CHAIRMAN: I have marked nothing on these
3 pages. I think I have followed everything that was
4 said very clearly and it was well stated.

5 I was interested, I must say, in the valuation
6 that you set forward in the recommendation to change
7 the law and I had an idea I had once seen something
8 like this before. I can't remember where it was. Was
9 it in the Sales Tax Committee report?

10 MR. MALLETT: It is very similar to that.

11 THE CHAIRMAN: Then, my memory wasn't altogether
12 faulty.

13 COMMISSIONER WALLS: On page 35 in paragraph
14 97, where you are talking about the problems of
15 definition and interpretation in dealing with retail
16 sales tax, I was just wondering to what extent are
17 these interpretations and definitions of exemptions
18 causing any trouble between your members and the
19 provincial sales tax? Are you having any real problem
20 with respect to definitions of the provincial exemptions?

21 MR. EATON: I think the answer ---

22 MR. REID: Constantly.

23 MR. EATON: There is an administrative problem
24 to operate. The very fact it is difficult to pinpoint
25 these exemptions completely and once they are pinpointed,
26 it is very difficult for them to be properly communicated
27 to the thousands of people that have to administer
28 them.

29 MR. REID: There are all kinds of examples;
30 childrens wear. Certain articles of childrens wear are



1 not subject to sales tax. Other articles, accessories
2 which are sold perhaps with the first articles are
3 subject to sales tax. There are a lot of complications.

4 COMMISSIONER WALLS: That only, of course, I
5 think applies in childrens clothing in two of the
6 provinces in regard to sales tax.

7 Generally speaking, where there is a minimum
8 of requirements, there should not be too much difficulty
9 in regard to definition.

10 I was interested to know how much trouble you
11 did have on the definition.

12 MR. KNECHTEL: I think in a lot of cases it
13 may be easier to define if certain sizes will be
14 exempt and certain larger sizes will not be exempt,
15 but this definition must be transmitted to the thousands
16 and hundreds of thousands of sales persons and, of
17 course, because of the seasonal nature of a lot of
18 the retail business, you get into a situation where
19 you are hiring occasional help during Christmas time,
20 and student help, and these people must be trained
21 in these aspects in a very short period of time.

22 COMMISSIONER WALLS: That is rather a matter
23 of administration rather than any fault of arriving at
24 a definition, is it not?

25 MR. KNECHTEL: Yes.

26 MR. REID: This problem did not arise from any
27 lack of cooperation on the provincial taxing authorities
28 in the sales tax area. They are all very cooperative
29 and the retailers try to be the same way.

30 When you do have many exemptions and you apply



1 sales tax on a product, you are bound to get into
2 problems because there are constantly new goods that are
3 entering the market where decisions have to be made.

4 THE CHAIRMAN: Do you find that sales tax
5 as it is applied to goods in such a variable manner,
6 that some types of goods are bearing more sales tax
7 than other types to the extent that the sales tax is a
8 factor -- I am not getting into excise tax -- depending
9 upon the channels through which the goods pass, the
10 markup on the goods, the amount of sales tax that the
11 consumer will compare any article ---

12 MR. REID: Are you talking about the provincial
13 sales tax?

14 THE CHAIRMAN: No, I am talking about the
15 manufacturers tax. The provincial sales tax is perfectly
16 obvious where you can see it. The manufacturers sales
17 tax I do know cases in which it is imposed unevenly
18 from one product to the other. Therefore I would think
19 it must have affected the buyer's choice.

20 MR. REID: I don't think there is any real
21 way to measure this. If tax were exposed and there
22 is an exposed tax at the retail level, then we come
23 right back to how much tax is going to be put on the
24 amount of dollars involved.

25 I would think that it would have a distinct
26 influence on buying decisions in what we call the big
27 packet items or items which carry large price tags
28 relatively to other goods and thus are the most
29 postponable purchase of customers. I am referring to
30 consumer durable goods. The effect in this particular



1 industry might be very considerable.

2 THE CHAIRMAN: In other words, if people see
3 what they were spending, they wouldn't spend it.

4 MR. REID: In this area, yes. I think it is
5 a question of magnitude.

6 THE CHAIRMAN: On the other hand, of course,
7 if it were at the retail level, shown or not shown, it
8 would be even as between goods because it would be
9 the same proportion of consumer spending whereas now,
10 I suggest to you it is not even.

11 MR. REID: Of course, this gets into the
12 marginal of utility of dollars again. This is a
13 question of equity. Whether it is really equitable
14 when you are talking in terms of dollars of a
15 refrigerator and dollars in terms of some other item.

16 PROF. POAPST: I was just thinking at the
17 retail level, you still have, coming back to the problem
18 of the impact of the tax, you still have the problem of
19 duty. It may not affect different products. What the
20 ultimate burden will be is not very clear.

21 THE CHAIRMAN: Yes. You mean that the tax
22 may be absorbed by management in certain circumstances
23 in order to be competitive by an adjustment of his
24 price.

25 MR. POAPST: I am saying that depending upon
26 the responsiveness of consumers to prices, there may
27 be differential impacts of this tax even if the
28 percentage tax is the same in its application on all
29 products.

30 THE CHAIRMAN: You are suggesting an instance



1 where the tax may in fact be shifted from the consumer
2 to the merchant under some circumstances.

3 PROF. POAPST: Yes.

4 COMMISSIONER WALLS: I have one further question
5 dealing with your heading on exemptions on page 30.
6 You are naturally and quite rightly concerned that the
7 exemption list be not extended because of the difficulties
8 it would cause particularly at the retail level.

9 Has your organization given any thought to any
10 other form of avoiding regression than by exemption?

11 PROF. POAPST: No.

12 MR. MALLETT: This I think is one of the
13 problems in the retail sales tax.

14 THE CHAIRMAN: There are alternative thoughts
15 arising now in respect of this, such as adjusting
16 allowances, welfare allowances, social allowances, some-
17 thing of that kind or making refunds. There is a great
18 deal of consideration for these points because
19 exemptions are very often strictly unfair.

20 MR. MALLETT: Yes.

21 MR. REID: Of course, one of the basic
22 problems, if we can go back to the days when the Wartime
23 Prices and Trade Board tried to decide what were
24 luxury items and what were not luxury items, at that
25 time it was one of the most difficult tasks we ever
26 embarked upon and certainly we satisfied very few
27 people all of the time and a large group some of the
28 time.

29 THE CHAIRMAN: You did not satisfy anybody.
30 I thought you got along very well.



1 COMMISSIONER GRANT: It was a more difficult
2 task in those days than it would be today.

3 COMMISSIONER PERRY: Today everything is a
4 luxury or a necessity, pardon me.

5 PROF. POAPST: It is not the purpose of an
6 exemption to work towards the income tax effect.

7 THE CHAIRMAN: I am sorry.

8 PROF. POAPST: It is not the purpose of
9 establishing some schedule of exemptions or differential
10 rates of tax for different commodities to restore the
11 sales tax to what is an effective income tax.

12 COMMISSIONER WALLS: Except your income tax
13 does not cover the lower salaried people who are most
14 affected by sales tax.

15 THE CHAIRMAN: An income tax taxes savings.
16 what
17 But you suggest would never do that.

18 PROF. POAPST: It is an attempt to move
19 towards that and the virtue of income tax and its
20 exemptions at the lowest stage is that it doesn't
21 impose a burden. It is not as progressive.

22 THE CHAIRMAN: All you are saying is that it
23 attempts to match the progressivity of income tax.

24 PROF. POAPST: Yes.

25 THE CHAIRMAN: Have you got anything more on
26 this or shall we move on? Time is moving on.

27 MR. STEWART: Mr. Chairman, as you suggest I
28 would like now to move to page 17 of this submission.

29 COMMISSIONER GRANT: Before leaving the sales
30 tax, there is just one observation. You are leaving
sales tax?



1 THE CHAIRMAN: No, we are moving to sales
2 versus income tax.

3 COMMISSIONER GRANT: There is one observation
4 I would like to make. I may be thinking about the
5 administration problem that you say you would have if
6 this tax were at the retail level and Mr. Eaton has
7 pointed out and Mr. Poapst has pointed out that
8 300,000 people would be involved in collecting these
9 taxes and if you take the sales clerks -- that would
10 be the owners -- of course, if you take the sales
11 clerks you would get up to one million perhaps.

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1 I personally would consider that to be a tremendous
2 obstacle were it not for the fact that it/a novelty today
3 in eight of the ten provinces. Therefore I cannot
4 convince myself that it is the administrative problem
5 that this number of 300,000 would seem to conjure in
6 one's mind.

7 More important than that, I think the
8 Commission could benefit a great deal by your opinion
9 as to the effects on the consumer if this tax were
10 placed at the retail level. You have dealt with it in
11 your brief and Mr. Reid has mentioned endurable items
12 where it would be quite a factor as to whether or not
13 it would be a direct tax and shown on the item. What
14 effect that would have on the day to day purchases is
15 another question.

16 But these are things on which I think we should
17 have your thinking in greater detail and more explicitly
18 than perhaps we have had this morning.

19 Another item comes in -- that is
20 assuming there is nothing to prevent the federal tax
21 being included in the retailer's markup and not shown as
22 a separate item but shown in the cost of the goods.
23 What effect do you think sales tax at a retail level
24 would have?

25 MR. EATON: There are three points and I do
26 not know whether you want us to touch on all three points.

27 The first point was the question of the fact
28 that eight of the ten provinces now have sales tax, and
29 what is the difference administratively in terms of
30 federal tax.



1 I think the position we took was -- and I think
2 it is in the brief -- that there are and must be
3 administrative problems in collecting sales taxes, the
4 provincial taxes, at the level at which they are. The
5 problem we feel would be magnified or would be become
6 much more important if that level of tax became 13 or
7 15 or some other percentage instead of the present
8 3 or 5. In other words, there is that much more money
9 involved and the care with which it would have to be
10 administered, the difficulty of administration and so
11 on, we think would be intensified. It is difficult
12 enough now, and especially for the smaller retailers,
13 to manage this tax matter. On the other hand, there
14 is not as much money involved as if there were three
15 times the tax. This would mean the enforcement
16 administration would certainly have to be intensified.

17 I think Mr. Reid touched on the second case
18 in terms of consumer durables. Our position I think
19 is that if the tax is at retail levels throughout there
20 must be some determinant to consumption, and I do not
21 know how we can measure this, except to say that we
22 talked about the reasons for putting tax on consumption
23 in previous areas in order to discourage it.

24 MR. REID: As far as a concealed one is
25 concerned I do not think there would be much effect on
26 consumption because presumably the price would be the
27 same; you change the numbers and at retail it becomes
28 7 or 8 per cent, or whatever it may be. So this
29 particular argument with regard to the tax on
30 consumption in the case of a concealed tax at retail I



1 think would be relatively unimportant. But all the
2 other arguments, as I mentioned earlier, against this
3 form of tax would remain, and there is quite a number of
4 them.

5 COMMISSIONER GRANT: The great obstacle to
6 having it concealed at the retail level is the practical
7 one of determining how much money should be coming to
8 the government by way of tax.

9 MR. REID: I think it all comes down to the
10 fact that you have performed an interesting exercise
11 in removing one figure from the manufacturers' level where
12 there may be some inequities. There are inequities
13 in the entire system and there are always inequities in
14 every tax system. You have removed it at the concealed
15 level and the price remains the same.

16 While it is a consumption tax and it may be
17 closer to the consumption by the purchaser, what indeed
18 has been accomplished by this transaction which imposes
19 on the retailer a great many new administrative
20 difficulties which he does not have at the present time
21 and which imposes problems in regard to the tax
22 collecting agencies which have not been referred to so
23 far by the Commission or by any of us? I think this is
24 the important substance.

25 COMMISSIONER PERRY: The manufacturers think
26 it would accomplish a great deal.

27 MR. POLLACK: It has just occurred to me --
28 and perhaps this is not relevant -- that in the retail
29 trade today we do a considerable amount of credit
30 business; it may run anywhere from 25 per cent of the



1 total volume to 60 per cent. If the retailer is going to
2 become the tax collector for the government both at the
3 provincial and federal levels, and he is meant to report
4 monthly, he will have to remit to the two governments
5 concerned monies which he has not obtained, monies which
6 he has not received from his customers. You could argue
7 that when he is buying his merchandise he has to remit
8 it to the manufacturer, but there are many many small
9 retailers -- and perhaps large ones, too -- who are buying
10 on 60, 90 and 120 days, so you are going to be imposing
11 on the retailer and on many small retailers a burden
12 of finance which they do not have today because they
13 will be obliged to remit this large sum of sales tax,
14 both provincially and federally. At the moment they are
15 only obliged to remit monthly the provincial sales tax
16 to the amount that it is applicable and, in terms of
17 his deferred payments, the amount of manufacturers' tax
18 as and when he makes payment for merchandise.

19 COMMISSIONER GRANT: Unless his purchases were
20 on a cash basis.

21 THE CHAIRMAN: Which may not be practicable
22 because you may have to match the cash to sales, which
23 may be a difficult operation.

24 MR. STEWART: We were going to turn, gentlemen,
25 to page 17 where you discuss the relative merits of
26 sales and income taxes. I think actually I would like
27 to start on page 21 where you make the statement in
28 paragraph 54 that by favouring savings over consumption,
29 sales taxes tend to reduce spending and employment.

30 May I ask you this? Is there clear evidence



1 that sales taxes reduce consumption more than do income
2 taxes?

3 PROF. POAPST: I would have to argue this on
4 theoretical grounds.

5 MR. STEWART: So there is no concrete evidence
6 for the proposition?

7 PROF. POAPST: Let us put it in this way: I
8 am not aware of it, but that does not rule out its
9 possibility.

10 MR. STEWART: There is no evidence as far as
11 you are aware?

12 PROF. POAPST: No.

13 MR. STEWART: My next question would be this:
14 Presumably both consumption and savings are necessary
15 for growth. In Canada, have we not a very real need for
16 savings? And in the circumstances, is there not an
17 argument against your proposition that the role of
18 consumption taxes should be minimized?

19 PROF. POAPST: If I might pick up the
20 argument as it is stated here without benefit of
21 empirical support, the logical argument says that the
22 income tax does not discriminate between savings and
23 consumption; the sales tax on consumption obviously does.
24 There are benefits, of course, to saving -- saving
25 defined as the withholding from spending on consumer
26 goods and services. But in a collective sense, in an
27 employment sense, savings are not advantageous unless
28 there is capital spending sufficient to offset the
29 savings that the community strives to effect.

30 If one tries to increase the savings, the



1 problem is that savings decisions and spending decisions
2 are substantially made by different people. Capital
3 investment and savings are substantially made by
4 different people and the intention to save, say by
5 consumers, which is the relevant group here, will be
6 thwarted if there is not sufficient capital spending to
7 absorb all the intended savings, and total income will
8 fall.

9 MR. STEWART: I am not an economist, but does
10 not capital spending require capital formation?

11 PROF. POAPST: Capital spending is capital
12 formation, and the amount of savings actually realized
13 will be the same as the net capital formation. But we
14 are talking about the effects if we create a gap in
15 the spending stream. Savings are a gap in the spending
16 stream that have to be taken up, say, by capital
17 spending. Now we are encouraging a larger gap. We are
18 saying some of the incentive to invest to make
19 capital expenditure, at least in the private sector, is
20 declining as a result of that. As well as the gap being
21 larger, the incentive to invest may decline.

22 One cannot look at this from the tax point
23 alone and government fiscal policy, but in so far as
24 an increasing propensity to save is concerned we do not
25 increase capital formation by that, and if we increase
26 the leakage from the spending stream we decrease income.

27 MR. STEWART: This is layman's language and
28 a layman's question, but I would like to put it in this
29 way. In Canada at the present time there are, are
30 there not, enormous numbers of requirements for capital



1 investment? Is part of our problem in this country at
2 the moment -- to put a supplementary question to you --
3 not to encourage Canadians to save and invest in
4 Canadian projects?

5 PROF. POAPST: I am not as worried about that
6 as are many people.

7 THE CHAIRMAN: Mr. Stewart, let us get back
8 to the fundamental argument whether the emphasis should
9 be on production or on consumption expenditure, which
10 we have put to many witnesses before us and, depending
11 upon who the speakers were before us, we would get
12 different answers.

13 MR. REID: We are merely saying in this brief
14 that there should not be greater dependence on the
15 sales tax.

16 MR. STEWART: Let me just ask this, then.
17 What is your comment on the fact that in many other
18 countries, including I think most of the countries of
19 western Europe, the emphasis on consumption taxes or
20 indirect taxes is much greater than it is in this
21 country?

22 PROF. POAPST: I think we should make one
23 point here. I am not well acquainted with other
24 economies by any means, but I suspect that what is
25 disturbing here is that other economies are experiencing
26 more rapid rates of growth and they have different
27 tax structures, and the different tax structure is
28 contributing to this more rapid rate of growth.

29 If we were experiencing a rapid rate of
30 growth and if we were experiencing inflation, and if we



1 were trying to restrain consumption and increase
2 savings, that would be one thing, but there the
3 situation is different. Capital formation is tending
4 to outrun the supply of savings, and therefore it is
5 inflationary. In those conditions one could make an
6 argument for greater emphasis upon consumption taxes
7 and less emphasis upon income taxes.

8 All we are submitting is that Canada is not
9 in this condition.

10 THE CHAIRMAN: Mr. Stewart, I think I shall
11 have to terminate this at this point.

12 MR. STEWART: Yes, Mr. Chairman.

13 THE CHAIRMAN: I am going to ask just one
14 question, and I think you can take that as being my pre-
15 rogative as Chairman, and then I will stop. Under
16 income tax you mention the fact that high progressive
17 rates of tax are causing us to lose Canadians.

18 Do you have anything to support that
19 statement? It is something we have heard before; it
20 is not a new thought, but I would like some evidence,
21 if you have any.

22 MR. REID: I think the immigration figures
23 available from the particular professions involved would
24 probably be of more value to you, Mr. Chairman, than
25 any substantive evidence.

26 THE CHAIRMAN: I would have thought so, and
27 I would have thought there were other reasons, such as
28 the large salaries paid south of the border, which are
29 a good deal higher than they are in Canada. Have you
30 any evidence as to taxation?



1 MR. McKICHAN: In our submission, Mr. Chairman,
2 we have recognized that one of the reasons was the higher
3 salaries paid in the United States, which is a
4 richer country and can afford to pay them. But we
5 said that perhaps we should make some attempt to meet
6 this competition by taking a look at our higher tax
7 rates.

8 THE CHAIRMAN: Thank you very much. I have no
9 further questions. We thank you very much indeed,
10 gentlemen. This has been a very interesting morning
11 for us and it has been an extremely good submission.
12 You have been kind enough to say that you will send us
13 some supplementary information, which we will be very
14 glad to receive. I cannot think of a more stimulating
15 morning that we have had than today. We are very
16 grateful to you.

17 MR. EATON: Thank you very much, Mr. Chairman.
18 We are very grateful for the opportunity of appearing
19 before you, and thank you for your courtesy.

20 THE CHAIRMAN: We will stand over until 2:30.
21 --Luncheon adjournment.

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1 ---On resuming at 2:30 o'clock p.m.

2
3 SUBMISSION OF THE ONTARIO RETAIL LUMBER
4 DEALERS ASSOCIATION INC.

5 APPEARANCES:

6 James G. Lind, First Vice-President

7 David S. Prowse, Secretary-Manager

8 THE CHAIRMAN: Mr. Secretary, I think we have
9 now reached 2:30.

10 THE SECRETARY: Mr. Chairman and Commissioners,
11 the second brief today is that presented by the Ontario
12 Retail Lumber Dealers Association. Mr. James G. Lind,
13 First Vice-President, is here to speak to the brief,
14 and associated with him is Mr. David S. Prowse,
15 Secretary-Manager of the Association.

16 Mr. Chairman, I would like to enter this
17 into the record as Exhibit No. 294.

18 ---EXHIBIT NO. 294: Brief of the Ontario
19 Retail Lumber Dealers
20 Association Inc.

21 THE CHAIRMAN: Thank you. Good afternoon,
22 Mr. Lind and Mr. Prowse. We had a much longer session
23 this morning than was anticipated, and rather than
24 break up the morning it seemed to us better that we
25 hold this submission over until the afternoon.

26 You have provided us with a very good and a
27 very clear submission and we may not have too many
28 questions to put to you because I think our understanding
29 of it is not going to be difficult. However, I
30 certainly have some questions.



1 Before proceeding to our questions, do you
2 gentlemen have anything that you would care to say to
3 us by way of introductory remarks?

4 MR. LIND: We would like to make a brief
5 resume at the start, if we may, Mr. Chairman.

6 THE CHAIRMAN: Would you care to read this to
7 us?

8 MR. LIND: Yes, I will read it to you.

9 THE CHAIRMAN: I wish you would. Stand or not,
10 as you please, Mr. Lind.

11 MR. LIND: Thank you very much. Mr. Chairman
12 and Members of the Commission, my name is James G. Lind.
13 I am a lumber dealer and carry on business at Dorchester,
14 Ontario. It is my honour to appear before you today
15 as the First Vice-President of the Ontario Retail Lumber
16 Dealers Association Inc. At the direct request of
17 the President, I place myself at the disposal of this
18 Royal Commission.

19 I have a letter here from the President which
20 is addressed to the Royal Commission on Taxation,
21 Ottawa, Canada:

22 "Mr. Chairman:

23 I send this letter by way of
24 authorization for a brief prepared
25 in the name of the organization, of
26 which I am President.

27 This document may also serve
28 as an introduction for Mr. James G.
29 Lind, First Vice-President and
30 Chairman of the Finance Committee of



1 the Ontario Retail Lumber Dealers
2 Association.

3 Mr. Lind, has, of course, my
4 full confidence and a right to speak
5 for the entire Association on this
6 matter.

7 Respectfully,"

8 That is signed "Harry G. Willoughby, President".

9 By way of introduction, I wish to address a
10 few words to you concerning the Association I am
11 representing here today.

12 The Ontario Retail Lumber Dealers Association
13 is a voluntary, non-profit organization, designed to
14 assist retail lumbermen in Ontario in the day-to-day
15 conduct of their business. This Association attempts
16 to do that which no one of our members can do alone,
17 and that is to further the aims of the industry as a
18 whole.

19 The Association was formed in 1917 and is a
20 federation of thirteen local associations in Ontario
21 covering virtually the entire province and even part of
22 Quebec.

23 Membership in this Association is open to
24 retail lumber dealers in Ontario. We represent small
25 businessmen who number over 900 and who are vitally
26 interested in the problem treated within this
27 submission.

28 It is the contention of the Ontario Retail
29 Lumber Dealers Association that co-operatives operate in
30 the same manner as tax-paying businesses, and in the



1 retail lumber dealers' opinion co-operatives should be
2 required to pay the same amount in income taxes as
3 the independent businessmen.

4 The inequity which presently exists in our tax
5 legislation is having the effect of systematically
6 eroding the federal income from corporation income taxes.
7 While most people are aware of the three-year income tax
8 freedom extended under present legislation to new
9 co-operative enterprises, this is not the most harmful
10 of the advantages extended to this type of business.

11 The tax concessions which are most damaging
12 to competition are those which are granted to co-
13 operatives by Section 75 of the Act. It is this section
14 of the Act that gives co-operatives a powerful means of
15 financing growth by reinvesting patronage dividends upon
16 which no corporate income tax has been paid and using
17 these funds as working capital. For all practical
18 purposes, this procedure is barred to ordinary businesses
19 who must first pay the required rate of income tax
20 on earnings before they can be reinvested.

21 We submit that if ordinary business wants a
22 more favourable tax deal, the effect of the present
23 legislation is to require that business to reorganize
24 the co-operative way. The result of such a step which
25 is encouraged by our tax laws would be the ultimate
26 withdrawal of capital investment in Canada and erosion
27 of the corporate tax base to the point of ending federal
28 income from corporation income taxes.

29 As co-operatives continue to grow, they
30 become organizations which tend to be operated by



1 management and the original concept of "one member,
2 one vote" tends to disappear. With the wide geographic
3 diversity of co-operative membership, more and more
4 the membership becomes totally remote from management
5 and executive control.

6 Co-operatives are the major competitors of
7 small business and it is probably in this area that
8 the impact of the unfair tax advantages of co-operatives
9 is felt the most by ordinary business competitors who
10 cannot amass untaxed capital for business expansion
11 as do the co-operatives.

12 Tax concessions to co-operatives do not lower
13 prices to patrons. Our submission has indicated that
14 the co-operative is in business for profit and has no
15 real desire to operate at a loss or even at cost. Co-
16 operative **leaders** continuously emphasize that they
17 sell at competitive prices and that, therefore, they
18 are in fair competition with their private business
19 neighbour. There are other considerations to be
20 noted as the underlying reasons for co-operative
21 selling at prevailing prices, such as, if a co-operative
22 operated at a loss, it would eventually impair its
23 capital and become insolvent and, if at cost, it could
24 not expand its operations by the automatic retention
25 of profits. The marketing of its products at cost
26 would also attract even greater attention from private
27 business competitors and the public to the real economic
28 effects of the co-operative tax subsidy.

29 Thus the co-operative sells its products at
30 the "going price", allocating the profit as tax-free



1 patronage dividends, and retaining for an indefinite
2 period that portion of patronage dividends allocated
3 and deemed necessary for use in the business and for
4 further expansion.

5 It is the view of this Association that redress
6 of the present inequities which confer special tax
7 concessions on co-operatives is urgent. We therefore
8 recommend the disallowance of patronage dividends paid
9 by co-operatives and ordinary corporations as a
10 deduction in the calculation of taxable income; the
11 repeal of the three-year tax exemption accorded new co-
12 operatives; provision for similar tax treatment of
13 patronage dividends in the hands of recipients to
14 that imposed on shareholder dividends in the hands of
15 their recipients.

16 All of which is respectfully submitted. Thank
17 you very much, Mr. Chairman.

18 THE CHAIRMAN: Thank you, Mr. Lind. In your
19 statement you have drawn attention to the competition
20 of cooperatives with small business. Are there in
21 Ontario -- because you are an Ontario association --
22 many co-operatives competing with small lumber dealers?

23 MR. LIND: Mr. Chairman, may I be seated?

24 THE CHAIRMAN: Please.

25 MR. LIND: I can only speak with intimate
26 knowledge of the area in which I am situated myself.
27 That is the area of southwestern Ontario. I know that
28 the Elgin Co-Operative has five yards ---

29 THE CHAIRMAN: What town are you in?

30 MR. LIND: I am close to London.



1 The Elgin Co-operative head office is in
2 St. Thomas. They have a branch yard in Westlorne and
3 Aylmer, and two other branch yards. The Middlesex Co-
4 operative is in the village of Belmont, which is half-
5 way between London and St. Thomas, and to the
6 northwest is Ilderton Co-operative, and to the north of
7 that is L.C. Craig and Parkdale Co-operatives. There are
8 definitely some others in the area, but I could not
9 be sure that they carry building materials and building
10 supplies. I know that those I have named do carry on
11 in competition with lumber dealers.

12 THE CHAIRMAN: I take it that you are a
13 retail merchant?

14 MR. LIND: I am a retail lumber dealer in
15 the village of Dorchester, which is situated eight miles
16 east of London.

17 THE CHAIRMAN: And you are yourself competing
18 with the cooperatives to which you have referred?

19 MR. LIND: I meet competition from the
20 co-operatives to which I have referred.

21 THE CHAIRMAN: Where do they secure their
22 lumber, do you know?

23 MR. LIND: I would assume that in general
24 they obtain their lumber and building supplies from
25 the same source as I do.

26 THE CHAIRMAN: Not from wholesale co-operatives?

27 MR. LIND: A lot of them are connected with
28 the United Co-operatives of Ontario, and what they
29 buy through them and what they buy direct, I wouldn't
30 be in a position to answer.



1 THE CHAIRMAN: Do you have any views as to
2 whether their prices are generally more competitive, or
3 lower, than your other competition which is not co-
4 operatives?

5 MR. LIND: I could not answer that truthfully,
6 as to whether they are lower. I know they are in
7 competition. We see them building, but it is a rather
8 difficult matter to find out their exact prices and
9 what they charge. But in every case where we talk to
10 the contractor he says, "We get a patronage dividend
11 back".

12 THE CHAIRMAN: Are they expanding their business
13 faster than the non-co-operatives in your area?

14 MR. LIND: For instance, the Elgin Co-operative
15 opened ten years ago and there were then three yards.
16 Now there are five. The last two yards have been
17 opened in the last two years.

18 THE CHAIRMAN: That does not quite answer my
19 question. There might have been a larger proportion of
20 non-co-operatives in your area.

21 MR. LIND: I am answering for the whole of
22 Ontario, as you realize.

23 THE CHAIRMAN: I can only ask you what you
24 are yourself familiar with, I think.

25 MR. LIND: With regard to whether their
26 volume is increasing, I would assume that when they are
27 opening additional yards their volume is increasing.

28 THE CHAIRMAN: I am on pages 8 and 9. Has
29 anybody any questions up to that point?

30 COMMISSIONER PERRY: Could you just tell us the



1 extent to which a retail lumber dealer sells more
2 than lumber. Does he normally have a whole range of
3 building materials?

4 MR. LIND: Usually a lumber dealer is a
5 lumber dealer and building supply yard. I would say
6 that in my own particular yard we have between 2,500
7 and 3,000 different items.

8 COMMISSIONER PERRY: Would these include
9 cement, plumbing supplies and roofing?

10 MR. LIND: Personally we do not go into
11 plumbing supplies or electrical supplies, but we do have
12 building materials which include cement, lime, lathes,
13 gypsum products and builders' hardware, in which there
14 is a terrific number of different items.

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1 THE CHAIRMAN: On page 9 you draw attention
2 to three matters where co-operatives may be distinguished
3 from other forms of business organizations.

4 Earnings are divided in direct proportion to
5 the patronage of each member.

6 Return on capital is limited to a moderate
7 rate of interest.

8 Correction and control are exercised by the
9 "patron-members".

10 I would have thought that there is a force
11 there; namely that co-operatives as far as I am aware
12 either by law or generally by law I think are required
13 distribute all their earnings, subject to minor reserves.
14 Is that not true?

15 MR. LIND: That is not what I understand.
16 I understand that by use of patronage dividends that
17 co-operatives are able to say -- let us take a specific
18 example. That a co-operative/earnings of \$25,000.00 a
19 year ---

20 THE CHAIRMAN: Are you making a distinction
21 between distribution in cash and distribution by shares?

22 MR. LIND: I am.

23 THE CHAIRMAN: Please do not, not until we
24 come around to that. I say merely distribution of
25 earnings in all forms.

26 MR. LIND: They are supposed to. It is our
27 understanding they distribute all earnings.

28 THE CHAIRMAN: Thank you. Would that not be
29 the fourth item there in addition to the three you use?

30 MR. LIND: Is it not covered in No. 1?



1 THE CHAIRMAN: I don't think it is. That
2 doesn't mean they are distributed. That says earnings
3 are divided in direct proportion to the patronage of
4 each member; but earnings in a company are divided in
5 proportion to the shareholders but not necessarily are
6 they distributed.

7 MR. LIND: I maintain it is not necessary
8 that they are distributed. In the case of co-operatives,
9 they are divided but maybe not distributed.

10 THE CHAIRMAN: You make a distinction between
11 the division and distribution between kind and cash.

12 MR. LIND: No. I mean by distribution they
13 are immediately coming out of the hands of the co-
14 operatives, that they are declared or they are retained
15 for a portion of time.

16 THE CHAIRMAN: Oh, I thought -- I am sorry, I
17 thought you just said they immediately passed out.

18 MR. LIND: My understanding is they do not.
19 I will go into that later on.

20 THE CHAIRMAN: Is this not the very place to
21 go into it. It seems to me we had better understand
22 what we are talking about. This whole brief really turns
23 a great deal on patronage dividends. My understanding
24 is that co-operatives are required by law to distribute
25 their earnings. Now, in the distribution, they may
26 pass out shares or they may pass out cash but in the
27 total distinction, they must pass out every time all
28 their earnings. They are permitted to set aside a
29 minor reserve. Am I not correct in that?

30 MR. LIND: That is an understanding of a true



1 agency co-operative but as I understand it on a marketing
2 co-operative their procedures with their patronage
3 dividends, they never leave the hands of the co-operative
4 actually other than a form of script or a dividend,
5 in the form of shares.

6 THE CHAIRMAN: They do go out in the form of
7 script.

8 MR. LIND: Yes, not all of them.

9 THE CHAIRMAN: And the recipient pays taxes on
10 it.

11 MR. LIND: We are not certain in cases of the
12 consumer co-operative, the recipient doesn't pay taxes.

13 THE CHAIRMAN: No, we are talking about
14 marketing co-operatives.

15 MR. LIND: We have no way of proving it, of
16 course, in each case that where it is not a consumer
17 co-operative, that the recipient pays taxes on it
18 versus a corporation.

19 THE CHAIRMAN: You have no way of proving it.
20 You have no way of proving that the law is carried out
21 in any transaction but does not the law require it?

22 MR. LIND: I think, as far as I understand
23 the law -- I am no lawyer -- I think the law requires it.

24 THE CHAIRMAN: I can concede this when you say
25 full distribution, that doesn't mean being a full payment
26 in cash. What I am saying is that they are required,
27 I think, to distribute their income in some form or
28 another, be it cash or something else, and the
29 recipient, in whatever form he gets it, is required,
30 unless it is a consumer co-operative to pay taxes on



1 what he gets. He pays taxes whether it be cash which
2 is received or whether it be a note or whether it be
3 shares.

4 MR. LIND: May I ask you a question, Mr.
5 Chairman?

6 THE CHAIRMAN: Yes.

7 MR. LIND: What happens at a buying co-operative
8 like the co-operatives of Ontario who buy and resells
9 it for the consumer co-operatives throughout the
10 district? Now, this becomes a chain marketing co-
11 operative in which each original buying co-operative
12 earns rebates or income or profits, or whatever you
13 want to call it. Does he not take it by cash or
14 patronage dividends or, shall we say, a district
15 co-operative which in turn hands out to the patron or
16 persons that buy from him and not necessarily are
17 they members of the co-operative that are doing the
18 purchasing.

19 THE CHAIRMAN: That, I think, is what has
20 been represented to us; that earnings of all co-
21 operatives by law are passed on subject to certain
22 statutory reserves, on which they pay taxes. That
23 does not mean cash flows, I quite agree.

24 If I am not correct on that I want to be
25 corrected.

26 MR. LIND: No, that is what I am coming on
27 with patronage dividends.

28 COMMISSIONER PERRY: How did the lumber co-ops
29 originate in the first place in Ontario, the ones with
30 which you are familiar? Are they really a direct



1 replacement of some enterprise which has been providing
2 the service or did they grow out of organized industrial
3 activity or a group of farmers who got together in order
4 to find an outlet for their lumber from their wood
5 lots?

6 MR. LIND: Well, unfortunately I come from an
7 area where there is not too much lumbering in the wood
8 lot business. It is more an agricultural area in which
9 most of these co-ops maybe originally were formed by
10 farmers who had banded together to buy their machinery,
11 their grass seed, their mill feeds and various items
12 that are used on the farms at a better price.

13 Unfortunately the trend has been in the last
14 few years that as these co-operatives get into
15 difficulties they are taken over -- they go to the
16 United Co-operatives of Ontario for backing and
17 immediately the United Co-operatives of Ontario place
18 a new manager in them, who is responsible to run the
19 co-operative.

20 He is well trained in his capacity from the
21 parent co-operative, the United Co-operatives of
22 Ontario, and this has been the case in -- shall we
23 name a couple, L.C. Craig and Parkdale Co-operatives.

24 COMMISSIONER PERRY: Your impression now is
25 that these are efficient, well-run organizations.

26 MR. LIND: They certainly are.

27 COMMISSIONER GRANT: Well, do you know of any
28 co-ops that operate a lumber business in the initial
29 stages; that is do they operate sawmills?

30 MR. LIND: Well, this is, I understand, in the



1 western provinces they operate sawmills but in the area I
2 come from, they do not operate sawmills but they do operate
3 a branch of lumber and building supplies out of these
4 various co-operatives.

5 COMMISSIONER: So the co-operatives of which
6 you have knowledge are consumer co-ops which have added
7 lumber and, for instance, hardware, building supplies, as
8 a line for their retail outlets, just the same as they
9 might have added groceries or some such commodity as that?

10 MR. LIND: I consider that a true consumer
11 co-operative is one that is selling to people not in
12 business. I don't think a farmer is a consumer co-oper-
13 ative. Operating a farm in my estimation is the same as
14 being in business. It is a business proposition in which
15 they gain a livelihood and living and they earn profits
16 and they experience losses.

17 COMMISSIONER GRANT: If the co-operative you
18 have in mind in presenting this brief were a producer co-
19 operative then we would be entitled to assume, would we
20 not, that it was organized by wood lot owners who brought
21 their logs to the mill, had them sawn at the mill and the
22 lumber was sold to the trade.

23 MR. LIND: That would be a producer co-operative.

24 COMMISSIONER GRANT: But you are not briefing
25 us on that type of co-oper, as I understand it.

26 MR. LIND: That type of co-operative may well
27 operate in the area, shall we say, to the north of
28 southwestern Ontario and in the eastern provinces or
29 the eastern counties.

30 The member of this co-op are builders, is



1 that so?

2 MR. LIND: Not necessarily are they builders.
3 There is a lot of builders who buy from co-operatives
4 and build houses and are in competition with the people
5 to whom we sell.

6 COMMISSIONER GRANT: How can we escape the
7 conclusion that the co-operative which you have in mind
8 in your submission is not a consumer co-operative?

9 COMMISSIONER PERRY: I think the problem is
10 that the producers are both producers and consumers
11 where they are buying materials to be used in their
12 productive efforts. I think it is easier to have
13 them as consumers rather than producers.

14 MR. LIND: Well, I would say the true consumer
15 is a person who has already earned his money and living
16 and he pays it out for groceries. He may pay it out
17 for materials for a house but as farmers or as
18 contractors they are in direct competition to our
19 own business for this.

20 THE CHAIRMAN: Generally speaking the
21 members of these co-operatives, they are customers in
22 the co-operative.

23 MR. LIND: Yes.

24 THE CHAIRMAN: If they are customers, what
25 type of people would they be who buy lumber regularly
26 and thus become a customer and a member.

27 MR. LIND: A good number of these people are
28 contractors who are in business the same as our
29 customers are. A good number of them are farmers who
30 are in business.



1 THE CHAIRMAN: Buying lumber regularly.

2 MR. LIND: Yes.

3 COMMISSIONER PERRY: Perhaps a more general
4 basis is whether members are ordinarily buying from
5 or selling to.

6 MR. LIND: They are both buying and saving
7 co-operatives.

8 COMMISSIONER PERRY: But there must be some
9 that are predominantly one and others that are
10 predominantly the other.

11 MR. LIND: The ones that I have mentioned are
12 predominantly marketing co-operatives.

13 THE CHAIRMAN: Marketing?

14 MR. LIND: They are marketing produce.

15 THE CHAIRMAN: Their members are not suppliers.
16 Their members are customers.

17 MR. LIND: Their members are customers, yes.
18 The co-operatives buy from somebody and re-sell to their
19 customers.

20 COMMISSIONER PERRY: It does not have to be
21 from a member.

22 MR. LIND: Not necessarily, no.

23 COMMISSIONER PERRY: In other words they are
24 primarily selling to the members.

25 MR. LIND: That is right.

26 COMMISSIONER GRANT: A farmer can be a member
27 of two co-operatives. He can be a member of a producer
28 co-operative for which he may be raising, for instance,
29 hogs and selling them to a producer co-operative; and
30 he may be a member of a consumer co-operative in which



1 he goes to buy his groceries at that consumer co-operative.

2 MR. LIND: That is right.

3 COMMISSIONER GRANT: That is what I would like
4 to get clear in my own mind. If the lumber dealers were
5 a producers co-operative then they would be taking the
6 logs from the woods, the logs would be delivered to
7 their mills and would be sawn in the mill and the lumber
8 would be sold.

9 MR. LIND: Yes.

10 COMMISSIONER GRANT: And the earnings would
11 flow back to the owner of the log by way of rebates or
12 what-have you.

13 MR. LIND: Yes.

14 COMMISSIONER GRANT: Or in rebates in the case
15 of a producer co-operative and let us call it patronage.
16 What you are aiming at here is an entirely different
17 situation from that sort of thing.

18 MR. LIND: I think that situation exists in
19 the eastern counties.

20 THE CHAIRMAN: Mr. Grant, he told you his
21 members were all customers. Doesn't that mean it is
22 a consumer co-op?

23 COMMISSIONER GRANT: I would think so.

24 MR. LIND: I think our definition of a consumer
25 -- maybe I am wrong, but we would assume that a farmer
26 who buys feed to feed his hogs is in business. He is
27 not a consumer. I think that he is buying the feed
28 to make a profit and therefore he is entitled to pay
29 taxes on it.

30 THE CHAIRMAN: I think we are really concerned



1 with your definition down here. It would seem to me to
2 be perfectly all right. There are two general classes
3 of cooperatives. One where people go to the co-ops
4 for some of their products. These, I think, generally
5 come under the heading of marketing co-ops.

6 There are people, I would tend to think, who join
7 together to cooperate in buying goods for themselves,
8 and sometimes those goods are to them consumer goods
9 and sometimes they are producer goods, depending upon
10 who the people may be. The same goods bought from a
11 co-operative may be to one man consumer goods and to
12 another man producer goods, depending what he is doing
13 with them. If he is a farmer buying for his household
14 purposes, it is perfectly clear that it is for
15 consumption. If he is buying those goods to use on his
16 farm, they are producer goods.

17 MR. LIND: That is right.

18 THE CHAIRMAN: But they come from the same
19 co-operative and may be the same goods.

20 MR. LIND: I agree, but I maintain the
21 consumer co-operatives, as we have defined it here on
22 page 11, are co-operatives which retail consumer goods
23 to ~~their~~ members, patrons and the general public.

24 Where the products are used on the farm,
25 for contracting or anything else, to make a profit we
26 maintain that they should be paying tax on that profit.

27 THE CHAIRMAN: Those are still sold by
28 consumer co-operatives but they turn out to be producer
29 goods, and when they are sold for that purpose the law
30 I think provides -- unless I misunderstand the law and



1 perhaps I do -- that they will be deducted. The cost
2 of those will be deducted by a farmer along with the
3 other expenses of the farm. I would assume, unless I
4 am mistaken, that the patronage dividend that he
5 receives applies as a deduction of that cost or is
6 in effect taken into this income. Is that not true?

7 MR. LIND: Yes, it is perfectly all right
8 provided that that which is used on the farm goes back
9 and is accounted for when he turns in his return to the
10 Income Tax Department.

11 THE CHAIRMAN: That is what I thought it was.
12 Then I think we are on all fours. I do not think there
13 is any difference between us.

14 COMMISSIONER GRANT: If I may add a word of
15 explanation as to why I was questioning on this, it is
16 just to clarify what you are aiming at in your brief
17 here because I think if you are designating your co-
18 operative as a consumer co-operative your brief may be
19 much stronger than it would be if it were a producer
20 co-operative. I am not expressing an opinion, but it
21 might be the case.

22 MR. LIND: I am aiming in my brief at a
23 marketing co-operative.

24 THE CHAIRMAN: You are? Then you are aiming
25 your brief at a co-operative dealing with lumber, and
26 at the bottom of page 10 you define the marketing
27 co-operative. You state:

28 "Marketing co-operatives
29 specialize in placing the products
30 of primary producers such as farmers



1 and fishermen, into the channels
2 of trade. They perform not only
3 marketing functions but also, in
4 many instances, carry out one or
5 more of the processes required to
6 bring goods from the producer to
7 or towards the consumer."

8 Therefore the members of the marketing co-operative
9 would be the people who supply the goods to the co-
10 operative. But I do not think that is what you are
11 talking about, is it?

12 COMMISSIONER PERRY: I think we are getting
13 tangled up in words here.

14 Mr. Lind has said there are no co-operatives.

15 MR. LIND: If I may read a paragraph on page
16 11, we state:

17 "For the purposes of this
18 submission, we are primarily
19 concerned with 'trading' co-operatives
20 into which category we place
21 'marketing', 'purchasing' and
22 'consumer' types."

23 THE CHAIRMAN: Right. That takes in everything
24 except your insurance and service co-operatives.

25 MR. LIND: Yes.

26 THE CHAIRMAN: I have checked them on my list
27 and I find it takes in categories (1), (2) and (3).

28 COMMISSIONER PERRY: I wonder if we can
29 switch and ask Mr. Lind what evidence he has of the
30 effects of competition from the co-operatives.



1 MR. LIND: In what regard? You say "evidence";
2 that is a pretty large statement. In what regard do you
3 wish the evidence?

4 COMMISSIONER PERRY: I take it for granted
5 that you have lost some business that you otherwise
6 would have had. I am looking for something more
7 concrete. Do you find you are losing old customers?

8 MR. LIND: I imagine you are talking about
9 trends.

10 COMMISSIONER PERRY:: I am talking of your own
11 statistics. We have had a large pile of experience on
12 trends and I think we are more interested now about your
13 actual experience.

14 MR. LIND: I know of three houses built in
15 Dorchester in which the Ilderton co-operative took the
16 building supplies away from our yard personally.

17 COMMISSIONER PERRY: Do you have direct
18 evidence of the effect of this competition?

19 MR. LIND: Yes.

20 THE CHAIRMAN: Is it increasing? You say
21 you had three last year. Was it one the year before?

22 MR. LIND: Well, we have never seen it before
23 last year.

24 COMMISSIONER PERRY: Is this a very important
25 thing? Three houses in Dorchester would be an
26 important matter? Is that fairly significant?

27 MR. LIND: Out of twenty built in the village
28 it is roughly about 15 per cent; it is increasing.

29 THE CHAIRMAN: Do you think that is fairly
30 typical?



1 MR. LIND: I would think that is typical across
2 the province, yes.

3 THE CHAIRMAN: Why do you think it is? Of
4 course, what you have said in your submission here is
5 that it is because they do not pay tax and you think that
6 gives them the edge over you for better competition and
7 the result of that would be that they undersell you.
8 Are you conscious of the fact that they are quoting
9 lower than you are?

10 MR. LIND: There are two things they could do.
11 They could quote lower. I do not think they are doing
12 so. I think they could give back a patronage dividend
13 or they could give better terms of payment.

14 COMMISSIONER GRANT: Mr. Lind, are they carrying
15 on in building supply operations in conjunction with
16 other retail activities?

17 MR. LIND: They are, yes. It is a branch of
18 each co-operative.

19 COMMISSIONER GRANT: What was the original
20 purpose of the co-operative when it was formed in
21 Dorchester?

22 MR. LIND: There is no co-operative in the
23 village of Dorchester. Our closest co-operative is
24 Ilderton, which is twenty miles away, and St. Thomas,
25 which is 15 miles away.

26 COMMISSIONER GRANT: What was their original
27 purpose in merchandising?

28 MR. LIND: The original purpose was to supply
29 farmers with feed and farm supplies used on the farm,
30 and machinery.



1 COMMISSIONER GRANT: Did they expand from that?

2 MR. LIND: They are expanding from that.

3 COMMISSIONER PERRY: Were these opened up as
4 new businesses entirely or were they existing businesses
5 which were taken over?

6 MR. LIND: In the case of the Ilderton
7 Co-operative, they were two new expansions, two more
8 branches which opened up.

9 THE CHAIRMAN: I am interested in your
10 statement on page 12 in regard to agency. I must say,
11 Mr. Lind, I have been very confused in all the evidence
12 which has been put before us as as to when a co-operative
13 is an agency and when it ceases to be an agency. I
14 see you have a statement here on this subject. I do
15 not know whether it holds up very well. Most co-operatives,
16 of course, tend to act as agencies, and you say that
17 when they evolve from an agency into a trading co-
18 operative the agency relationship ceases to exist.

19 I think co-operatives generally have agreements
20 with their members who buy for their members or to sell
21 for their members and, by virtue of that agreement,
22 they believe they have an agency relationship. You say
23 that when they extend their activities they embrace

24 "...the processes of assembling,
25 grading, standardizing, packaging,
26 transporting, storing, financing,
27 risk-taking, processing, disbursing,
28 and selling...."

29 and the agency relationship then ceases to exist. Have
30 you any authority for that?



1 MR. LIND: As I understand the true agency
2 co-operative, the profits that are experienced on each
3 trade, shall we say, or each item of business, should
4 be credited back to the person who made the original
5 business deal.

6 THE CHAIRMAN: Your view of agency is that
7 in order to preserve that relationship each transaction
8 must be regarded by itself and the profit on that
9 transaction itself must be credited to the principal,
10 that you cannot pool a lot of transactions and credit
11 the pro-rata and preserve an agency arrangement? Is
12 that what you are saying?

13 MR. LIND: That is what I am endeavouring
14 to prove, yes.

15 COMMISSIONER GRANT: If I raise hogs and I
16 sell them to a cooperative or I market them through a
17 co-operative, must I accept only the price of that
18 hog as an animal that has been slaughtered, or am I
19 entitled to follow it through and derive benefit from
20 the bacon and the ham which are produced in the plant
21 when that benefit finds its way into dollars and
22 cents when disposed of on the market?

23 MR. LIND: If you were a farmer and you were
24 producing hogs and sold to a marketing co-operative you,
25 in the same way as any other farmer who is selling
26 on the open market, get the money for the hog when it
27 is sold -- and then it is done, is it not?

28 COMMISSIONER GRANT: He may not think so; he
29 may think he is entitled to follow that hog through
30 until it is sold in the stores as bacon and ham.



1 MR. LIND: But the minute he starts processing
2 that, storing the bacon, curing the bacon, curing the
3 hams, parcelling them, packaging them and putting them
4 in a different category, actually it is an abattoir's
5 job in which there are several stages from the producer
6 to the consumer. Is that not right?

7 COMMISSIONER GRANT: True, but the abattoir
8 is an agent. He has made it possible for the abattoir
9 to be there; he is a part owner.

10 MR. LIND: Is he operating at exact cost or
11 is he operating with a profit picture?

12 COMMISSIONER GRANT: He hopes he is operating
13 at a profit. He is a farmer and he is raising hogs,
14 and he gets paid for them.

15 MR. LIND: He does not run the abattoir.

16 COMMISSIONER GRANT: He has a man to run it
17 for him; he hires the man. It is just the same as a
18 corporation in which he hires a man to run it -- he and
19 the other farmers.

20 MR. LIND: How much time does he put in at
21 the abattoir?

22 COMMISSIONER GRANT: He does not have to put
23 in time; he is a director or a shareholder.

24 MR. LIND: They cannot all be directors.

25 COMMISSIONER GRANT: Well, he is a shareholder.

26 MR. LIND: The same as any other shareholder
27 in a corporation.

28 COMMISSIONER GRANT: And he might be a director.
29 However, my point is, is he entitled to the fruits of
30 this processing or must he accept the price for the raw



1 material and say that is it?

2 MR. LIND: I think he is entitled to the fruits
3 as a shareholder of, say, the processing of the abattoir,
4 but if the abattoir is entitled to pass them on to him
5 and if they come all the way down the line, then he is
6 entitled to pay the tax in the same way as a shareholder
7 in the company.

8 COMMISSIONER GRANT: Does that not go against
9 your definition in paragraph 30 on page 12?

10 MR. LIND: I do not think so because I think
11 a true agency co-operative should be operating at cost.
12 In this case, they are not; they are operating to make
13 a profit.

14 THE CHAIRMAN: You say when they operate to
15 make a profit they cease to be an agent? It is the other
16 way around, is it not? We have to find out where
17 the agency relationship continues and where it ceases,
18 and I rather thought from reading this that you decided
19 there was no agency when the original owner could not
20 identify his bacon, or whatever it may be, because of
21 processing or packaging or something else.

22 MR. LIND: How many steps down the line do
23 you go before you can recognize your dozen eggs or your
24 hogs?

25 THE CHAIRMAN: You are the witness, Mr. Lind.

26 MR. LIND: We feel that each stage in this
27 process is carried out to make a profit, and at each
28 stage the profit should be distributed down the line
29 and come to the original shareholder. Somewhere along
30 the line in an ordinary corporation they pay taxes to the



1 government. If it all goes to the original member,
2 then he is entitled to pay taxes too. But in the case
3 of a corporation, they have to pay taxes on their
4 profits.

5 COMMISSIONER GRANT: Just as a final word on
6 this, to stay with our example of the hogs, say that
7 that farmer receives a price initially for his hog
8 of \$45.00 but that after it has been processed and
9 sold it makes a return to the abattoir of \$9.00. The
10 farmer has organized and is a part owner of the abattoir,
11 and at a subsequent date the abattoir says to the farmer,
12 "You have supplied us with a certain dollar value of
13 products. We have processed this on your behalf and
14 we have sold it, and we have taken off our expenses. We
15 find that we have some money to hand back to you", which
16 they do. Let us say they call it patronage
17 dividend, or whatever it may be. He regards that as
18 an increase in the price of the hog which he sold for
19 \$45.00 which brings the value of the hog up to \$55.00
20 to him, and he reports that. Is there anything wrong
21 with that?

22 MR. LIND: There is nothing wrong with that
23 whatsoever, but how does the abattoir file the T-5
24 slip? Does he say "I gave \$10.00 to shareholder "A"
25 for this"?

26 COMMISSIONER GRANT: You are asking that
27 question.

28 THE CHAIRMAN: Turning to page 16, you draw
29 attention to two points of difference between co-operative
30 corporations and regular corporations.



1 Point (1) states:

2 "The co-operative corporation
3 distributes all or part of its
4 earnings on the technical basis
5 of patronage" --

6 and I would have thought that would be virtually all
7 its earnings, except as I have said before what is
8 permitted to be retained by law --

9 "while the regular corporation
10 distributes its earnings" --
11 or as much as it may choose to distribute at the
12 discretion of its directors --

13 "on the basis of investment. It
14 should be pointed out, however,
15 that in many instances the
16 co-operative patronage dividends
17 also represent compensation to
18 the investor for the use of risk
19 capital, although the investment
20 of the co-operative's patrons is
21 often involuntary."

22 That is because, I assume, they do not pay any
23 interest on the shares, which I believe to be true.

24 I would have thought one of the real
25 difficulties here is that the recipient must, subject
26 to it being consumer goods, pay tax on what he gets,
27 and that is at the time of the earnings because the
28 earnings have moved out in the same year whereas in
29 the case of corporations that is not true. In the
30 case of a corporation, he pays one tax at its rate,



1 and when it chooses to distribute the recipient pays
2 the tax. When the recipient pays the tax -- in
3 paragraph (2) you have drawn attention to the difference
4 in the taxation -- the recipient pays tax in the case
5 of normal corporations subject to a relief of 20 per
6 cent, whereas such a relief does not obtain with regard
7 to patronage dividends and in fact there will be a
8 difference in taxation taking into consideration
9 patronage dividends. There is a difference, of
10 course, not only as between the two types of
11 organizations to which you have referred, the
12 co-operatives and the partnerships, which are different
13 to corporations, and I think I might say that
14 corporations, if they were offered the right to be
15 taxed as co-operatives on the condition that they
16 distributed all their earnings, would not wish to do so,
17 even if they could divide up their earnings in one
18 form or another.

19 Certainly no corporation that has come before
20 us has suggested that they would like to do that.

21 There are different forms of organization, and I would
22 assume that they would have different kinds of taxation.

23 As you say, the weight of taxation may be
24 favourable to the cooperative. I do not think that
25 is worked out in your submission in figures as to how
26 much it is, but many co-operatives will of course pay
27 tax at 21 per cent. I know that somewhere in your
28 submission -- or it may be in another submission -- it
29 is said that about 85 per cent of co-operatives have
30 sales of less than \$500,000.00. Where they have sales



1 of less than \$500,000.00, I assume their profits would
2 properly come under the 21 per cent rates. Sometimes
3 they would go over. They come in at the 21 per cent
4 rate. That is certainly paid by the corporation as a
5 tax. When that gets out to the shareholder, he pays
6 whatever rate it may be, less 20 per cent in the case of
7 a co-operative with patronage dividends, and I would
8 agree that the tax is not paid by the co-operative.

9 On the other hand, when the patronage dividend
10 moves out to the shareholder, subject to consumer goods --
11 which is a small proportion of the total -- taxes are
12 paid by the recipient and are paid without any relief.
13 Whether that adds up to a big difference or not, I do
14 not think you show very clearly in your submission.
15 Is there anything you would like to add to support
16 your views?

17 MR. LIND: Mr. Chairman, could I draw a
18 comparision between two types of business, one a
19 co-operative members' business and one an ordinary
20 corporation business?

21 THE CHAIRMAN: By all means.

22 MR. LIND: May I read this, then? Total
23 tax contributions of a consumer co-operative and members,
24 compared with the total tax contributions of regular
25 corporations and shareholders; both organizations with
26 an income of \$25,000.00; both organizations wishing
27 to put back into the business one-half of their profits.

28 The co-operative income of \$25,000.00, less
29 patronage dividends estimated at 90 per cent of income,
30 to include \$12,500 satisfied by script or loan, and



1 \$10,000.00 satisfied in cash, making a total of \$22,500.00,
2 leaving a taxable income of \$2,500.00. Tax payable on
3 the income of \$2,500.00, in Ontario at 23 per cent,
4 equals a payment of \$575.00. The patronage dividend
5 is distributed to the members. No tax is payable by
6 the members on the consumer co-operative patronage
7 dividend. Total tax contribution of the co-operative
8 and members, \$575.00.. Then the corporation ---

9 THE CHAIRMAN: I am sorry, but would you excuse
10 me. You are assuming that all of this dividend is
11 paid to a consumer who has bought consumer products.
12 If the builder was a member of one of your lumber
13 co-operatives and its patronage dividend was in respect
14 of the products which he had bought, those dividends
15 would be fully taxable to him, would they not?

16 MR. LIND: They would, if, as I said, the
17 records kept and T-5 slips are the same ---

18 THE CHAIRMAN: Subject to avoidance, yes. I
19 am talking about the law.

20 MR. LIND: I know.

21 THE CHAIRMAN: The law requires that tax be
22 fully paid on \$22,500.00 if the man who buys the goods
23 is a producer; is that right?

24 MR. LIND: Yes.

25 COMMISSIONER GRANT: The great emphasis there
26 is on "a producer."

27 THE CHAIRMAN: We are dealing with \$22,500.00,
28 and what would be a fair rate of tax on a small
29 builder? Do you think it would be 20 per cent?

30 MR. LIND: There is such a wide range. There



1 are builders who build one, two, three, five houses a
2 year.

3 THE CHAIRMAN: All right. I will say 20 per
4 cent. Now go to your other example.

5 MR. LIND: A corporation with income of
6 \$25,000.00; tax payable at 23 per cent. The amount of
7 tax would be \$5,750.00. With shareholders with
8 \$12,500.00 distributed as dividends, it is realistic
9 to assume that in effect shareholders pay a 30 per cent
10 income tax rate. The effective rate, after allowance
11 for 20 per cent tax, the credit, is therefore 10 per
12 cent, for a total tax of \$1,250.00.

13 THE CHAIRMAN: \$7,000.00?

14 MR. LIND: Yes.

15 THE CHAIRMAN: That is your total. If I take
16 30 per cent in the first example -- because I will
17 consider it is the same person in the one case as in
18 the other case, which I think would be fair -- we have
19 \$6,750.00 plus \$575.00. In case No. 1 the tax is
20 \$7,325.00, and in case No. 2 it is \$7,000.00.

21 MR. LIND: I disagree with you, because we
22 specified a consumer co-operative.

23 THE CHAIRMAN: That is right. If you like to
24 put it on the basis of a consumer co-operative, the
25 tax in one case is \$575.00 and in the other case it is
26 \$7,000.00. In the case of a consumer co-operative
27 selling goods to a producer -- and I am having reference
28 to the most common matter that has appeared before us
29 today, namely a builder buying materials from a lumber
30 yard of which that builder is a member, because that



1 is really what you had a good deal to say about, that
2 builder would be subject to tax on the dividends he
3 receives from that co-operative.

4 I think under the circumstances which you
5 speak of, those dividends would be \$22,500.00, and I
6 am assuming the same tax rate for the builder as I am
7 in the other circumstance, which is 30 per cent, and
8 30 per cent of that, added to the other, gives you
9 \$7,325.00.

10 MR. LIND: I cannot follow you. Thirty per
11 cent is \$1,250.00, and \$575.00 gives you \$1,825.00,
12 versus \$7,000.00.

13 THE CHAIRMAN: But in case No. 1 the builder
14 would, I think, be required to pay tax on the full
15 amount of the patronage dividend, whether it was in cash
16 or script or shares. The full amount of that
17 patronage dividend would, I think, be \$22,500.00; is
18 that right?

19 MR. LIND: That is to assume that the full
20 amount of the \$12,000.00 in this particular instance
21 went to one contractor; but what if it is distributed
22 between ten contractors?

23 THE CHAIRMAN: The same thing applies to your
24 \$12,500.00 distributed to a lot of shareholders. I am
25 trying to compare like with like.

26 MR. LIND: I am comparing like with like too,
27 but I am comparing the taxable income of the co-operative
28 at 23 per cent on \$2,500.00 instead of on \$25,000.00,
29 as the corporation has to pay on.

30 THE CHAIRMAN: But on the other hand your



1 shareholder gets a dividend credit, and the patronage
2 dividend is not subject to a dividend credit. In the
3 one case the dividend credit is worth 20 per cent on
4 \$12,500.00, which is \$2,500.00.

5 MR. LIND: That is to assume that this co-
6 operative is run by one man who gets all the patronage
7 dividends.

8 THE CHAIRMAN: You are assuming it is run by
9 one shareholder.

10 MR. LIND: I am assuming it is divided between
11 several shareholders.

12 THE CHAIRMAN: And they all pay 30 per cent?

13 MR. LIND: Not necessarily they all pay 30
14 per cent. What I am assuming is that the \$12,500.00
15 is divided between several consumer customers. What if
16 a man is building a house for himself? He does not
17 have to pay tax on that material, on the patronage
18 dividend, if he gets it back.

19 THE CHAIRMAN: I am simply taking the income
20 you said the co-operative had, \$25,000.00. If it
21 distributes 90 per cent of it, that is \$22,500.00. It
22 finds its way to the members of that co-operative,
23 and I am simply saying that those members average rate
24 of tax is the same rate of tax as your shareholders
25 would have.

26 In your case you put the shareholders at 30
27 per cent, so I put 30 per cent for the members of the
28 co-operative, making the condition that all members are
29 buying producer goods, because they are builders who
30 have bought lumber from this co-operative. Then I say



1 that the 30 per cent applied to \$22,500.00 is \$7,650.00.
2 It would seem to me that is not unfair. But I think
3 perhaps where the example falls down is that in the
4 second part, when you get to an ordinary corporation you
5 are saying it is fair to consider the rate of 23 per
6 cent, and out of that we are left with what we are
7 going to distribute, \$12,500.00, to shareholders. If
8 you distribute the total \$19,250.00, which is what the
9 corporation profits are, of course you then have a
10 larger tax.

11 MR. LIND: If you had let me finish, Mr.
12 Chairman, I would have finished my example.

13 THE CHAIRMAN: I am sorry. Go on.

14 MR. LIND: The total contribution to the co-
15 operative shareholders in this instance is twelve
16 times as great as the total contribution to the
17 corporate shareholders in this instance, and
18 after income tax
19 and distribution of 50 per cent of the profits the
20 co-operative is left with \$11,925.00 for reinvestment,
21 and the corporation is left with \$6,750.00.

22 THE CHAIRMAN: Would you give me those figures
23 again, please? The co-operative is left with?

24 MR. LIND: \$11,925.00, and the corporation is
25 left with \$6,750.00. That is assuming it is a true
26 consumer co-operative.

27 THE CHAIRMAN: That is assuming, not only that
28 it is a consumer co-operative but that the members are
29 buying goods for consumption purposes and not production
30 purposes?



1 MR. LIND: That is right, sir.

2 THE CHAIRMAN: So they are not builders buying
3 lumber from a co-operative lumber yard; they are, if
4 you like, householders preparing their house, or
5 something of that kind.

6 MR. LIND: Yes.

7 COMMISSIONER GRANT: In other words, if they
8 were builders the co-operative would be bound, under
9 its legislation, as I understand it -- I am referring to
10 the consumer co-operative -- to report the amount of
11 the purchase that the builder made, and he in turn would
12 be liable for income tax on that patronage dividend if
13 he was going to capitalize the profits that he made
14 from the co-operative in the form in which they
15 eventually found their way into a house and was going to
16 claim depreciation on that capital investment.

17 MR. LIND: He cannot claim depreciation if
18 it is a house he lives in. If it is a business, he
19 can.

20 COMMISSIONER GRANT: If it is his own house,
21 he cannot; but if he is a builder and lives in it and
22 holds it back for a while, he might.

23 MR. LIND: Not necessarily if he lives in it
24 and holds it for a while.

25 THE CHAIRMAN: Taking it even on the basis
26 of being producer goods, if you go to the large
27 co-operatives which, instead of paying 25 per cent are
28 paying 50 per cent, you will find the difference in the
29 amount of tax is quite substantial.

30 MR. LIND: How many co-operatives are paying on



1 the 50 per cent basis, though?

2 THE CHAIRMAN: Can you tell me?

3 MR. LIND: I do not know that I can.

4 THE CHAIRMAN: I thought I saw somewhere that
5 it was about 15 per cent of them. No, I saw that 15
6 per cent had sales of more than \$500,000.00.

7 MR. LIND: I have made some study of this.
8 The Alberta Wheat Pool, which is a co-operative in the...
9 west, had net earnings in the neighbourhood of \$2,826,000.
10 in the year 1961 and paid in the neighbourhood of
\$173,000.00 in taxes.

11 As I understand it, they are forced by law
12 to pay 3 per cent of their invested capital, being able
13 to deduct bank interest and finance charges to finance
14 companies. A normal business corporation that makes
15 in the neighbourhood of \$2,826,000.00 would be paying,
16 in Ontario, a tax in the neighbourhood of \$1,400,000.00.
17 I maintain that by this procedure they are eroding our
18 federal tax base.

19 THE CHAIRMAN: You are not the first person to
20 put that statement before us. I think it is only fair,
21 when considering the difference in the weight of taxation,
22 to go right down to the shareholders, as in fact you
23 tried to do in your illustration. If you stop at the
24 organization, it is only part of the story.

25 I am looking at page 22, Mr. Lind, where you
26 say that 87½ per cent are small co-operatives, and then
27 you say:

28 "Let it be said in the clearest
29 possible terms that the large number
30 of co-operatives with annual sales



1 of \$500,000.00 or less are fierce
2 competitors in the field of small
3 business."

4 The point I get out of your illustration -- and
5 I should like you to state clearly, if you do not agree
6 with me -- is that so long, and only so long, as they
7 are selling producer goods, or selling consumer goods
8 for producer purposes, if you like, but selling goods
9 that when they are received become taxable goods,
10 there is no tax advantage that I can see to those
11 small co-operatives when they are taxed at 23 per cent.
12 I think that is borne out here. Where they are selling
13 goods and the goods are received as consumer goods, there
14 is definitely a tax advantage, which you make very
15 clear.

16 MR. LIND: I do not believe there are many
17 co-operatives paying at the 21 or 23 per cent tax rate.
18 I think that through the process of patronage dividends
19 which come up in two forms, first by cash and second
20 by script, they can reduce their earnings to a level
21 of 3 per cent of the invested capital. In examples that
22 I have found in the study, they have done just this.

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1 THE CHAIRMAN: I think you are right there.

2 Let me put it another way, which is what I should have
3 done to start with. In these cases where corporations
4 are paying at the 22 per cent rate, corporations not
5 being co-operatives, co-operatives who are paying
6 dividends or cash to a recipient reap no tax advantage.

7 MR. LIND: Reap no --- ?

8 THE CHAIRMAN: No tax advantage as against
9 companies who are taxed at no more than 23 per cent.

10 MR. LIND: If company A was in business and
11 they did less, let us say, than \$500,000.00 a year,
12 in which they made a profit of \$25,000.00 ---

13 THE CHAIRMAN: Yes.

14 MR. LIND: Versus a co-operative who did the
15 same amount and made \$25,000.00, company A would pay
16 23 per cent of that \$25,000.00 to the federal tax.

17 THE CHAIRMAN: And the co-operative would pay
18 nothing.

19 MR. LIND: The co-operative would pay three
20 per cent on your invested income, deducting any bank
21 interest they had to pay or charges to the finance
22 company.

23 THE CHAIRMAN: So that advantage flattens out
24 if you go down to the next level, which is the
25 shareholder, who is the one person paying taxes. That
26 is not correct.

27 MR. LIND: In the case of the corporation
28 shareholders they are being taxed twice.

29 THE CHAIRMAN: He is getting a dividend
30 credit.



1 MR. LIND: He is getting a dividend credit
2 of 20 per cent.

3 THE CHAIRMAN: Which is not available to the
4 co-operative because patronage dividends are not subject
5 to dividend credit.

6 MR. LIND: That is right. As I understand it,
7 if it was less than \$100.00 given in patronage dividend
8 or spread out thin, there is no records kept of less
9 than \$100.00.

10 THE CHAIRMAN: All right. You say there may
11 be an advantage by virtue of evasion. Perhaps you are
12 right. I don't know.

13 COMMISSIONER PERRY: I do not have the
14 figures with me but I would doubt very much if the sales
15 of the kind of consumer co-operative, the members of
16 which do not pay taxes on their patronage dividends,
17 are as high as a billion and a half a year. I would
18 think this must include a lot of co-operatives who
19 are really acting as purchasing agents for producers.
20 My recollection is that the sales of pure consumer co-
21 operatives in the sense in which you are using the
22 term, are considerably less than a billion and a half
23 a year.

24 MR. LIND: That may be but the figures that we
25 can find are kind of hard to obtain. What we have
26 obtained is the sales of co-operatives across Canada,
27 in general and it amounts, as close as I can estimate,
28 to a billion and a half sales per year.

29 THE CHAIRMAN: How does that reconcile with the
30 figure I picked up somewhere along the line namely that



1 about 15 or 16 per cent of the total business of all
2 Canadian co-operatives is in consumer goods.

3 MR. LIND: I couldn't relate that to that
4 because I don't recall that figure.

5 COMMISSIONER PERRY: I think all sales
6 involved in your argument is considerably smaller than
7 a billion and a half figure.

8 MR. LIND: Well, I am giving you the billion
9 and a half figure, Mr. Perry, for the total sales that
10 we have discovered in our study on this for the total
11 of Canada.

12 COMMISSIONER PERRY: Someone has given us a
13 much smaller figure. I am not sure who it was or when.

14 THE CHAIRMAN: However, you can be sure it
15 will be carefully looked at. We are working on this
16 subject all the time. I have no further questions.

17 COMMISSIONER PERRY: I would just like to
18 ask Mr. Lind whether he feels very strongly that the
19 tax position of co-operatives has really made a
20 difference in his own area in having the co-operative
21 set up. Suppose they were subject to taxes and you
22 found them still operating and still prospering.

23 MR. LIND: I have no objection to them
24 operating as a business. I have no objection to them
25 operating as co-operatives as long as I am assured, as
26 a citizen, that they are all paying their just amount
27 of taxes that we pay as citizens.

28 Might I say this: After my study of this and
29 I have a particular instance in which it came to mind.
30 I have an interesting company that is purely a company



1 that is set up as a corporation. I am convinced
2 that there would be savings if our members reorganized
3 as a co-operative.

4 COMMISSIONER PERRY: The law holds out this
5 prospect.

6 THE CHAIRMAN: That is your privilege.

7 COMMISSIONER PERRY: We had Eatons and
8 Simpsons before us this morning who were referring to
9 themselves as agents for the consuming public.

10 MR. LIND: I don't know what taxes they pay.
11 I would like to compare them with the taxes that the
12 Federated Co-operatives Limited of Saskatchewan pays
13 to the federal government. They have sales of
14 \$94 million.

15 THE CHAIRMAN: Are there any more questions.
16 Well, I think you have set forth your case very
17 clearly indeed, Mr. Lind. I know I have exhausted all
18 my questions. I think we all have and I think we
19 understand your point of view very well.

20 We have already indicated we are not
21 finished with our examination of this matter. We are
22 going to keep on looking at it. I can assure you that
23 whatever you have put forward will be weighed in our
24 deliberations and certainly will be given full
25 thought by ourselves.

26 Thank you very much indeed, for your kind
27 help. Glad to see you.

28 MR. LIND: Mr. Chairman, may I just before
29 I leave on behalf of Mr. Prowse and myself thank
30 you particularly and each member of your Commission



1 for the very fine consideration you have given us
2 this afternoon. Thank you very much.

3 THE CHAIRMAN: Thank you.

4 THE SECRETARY: I have one more item, Mr.
5 Chairman, if I might. The Commission received a brief
6 from Mr. R.J. McCance of Vancouver, British Columbia
7 on the 5th of December. I would like to enter this
8 into the record on his behalf as Exhibit 295.

9 ---
10 ---EXHIBIT NO. 295: Brief of Mr. R.J.
McCance, Vancouver, B.C.

11 That is all, Mr. Chairman, until tomorrow
12 morning.

13 THE CHAIRMAN: Thank you very much. We will
14 stand over until 9:30.

15 ---Whereupon the hearing adjourned.
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ROYAL COMMISSION



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3 ROYAL COMMISSION ON TAXATION

4 Proceedings of hearings held before
5 the Royal Commission on Taxation...
6 in the Supreme Court of Canada
7 Building, Ottawa, Ontario, commencing
8 at 9:30 a.m. on Thursday, January
9 9th, 1964.

10 COMMISSION

11 MR. KENNETH LEM. CARTER

Chairman

12 MR. J. HARVEY PERRY

13 MR. A. EMILE BEAUVAIS

14 MR. DONALD G. GRANT

15 MRS. S. M. MILNE

16 MR. CHARLES E. S. WALLS

17 LEGAL ADVISER

18 MR. J. L. STEWART, Q. C.

19 RESEARCH DIRECTOR

20 PROF. D. G. HARTLE

21 SECRETARY

22 MR. G. L. BENNETT

23 * * * * *



INDEX TO EXHIBITS

<u>NO</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
296	Brief of Retail Merchants Association	7221
297	Document headed "Taxation Statistics, 1962," dated January 8th, 1964	7242
298	Book by Mervyn Woods, entitled: Federal Taxation Income of Co-Operative Trading Organizations on the United States and Canada.	7302

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1 THE CHAIRMAN: It is 9:30, gentlemen.

2 THE SECRETARY: Mr. Chairman and
3 Commissioners, the brief this morning is being
4 presented by the Retail Merchants Association of
5 Canada Inc. Mr. David A. Lesser, who is Past
6 President of the Association, is here to speak to the
7 brief, together with Professor L. I. Barber, who is
8 Economic Consultant to the Association.

9 Mr. Lesser has a prepared statement
10 which he would like to read, Mr. Chairman. I would
11 like to enter this brief into the record as
12 Exhibit 296.

13 EXHIBIT 296: Brief of Retail
14 Merchants Association
of Canada.

15 THE CHAIRMAN: Thank you, Mr. Secretary.
16 Good morning, Mr. Lesser and Professor Barber. We
17 are glad to see you indeed. You have given us
18 some very interesting reading and we want to hear
19 a lot more about what you have put before us.
20 Would you care to read your introductory remarks
21 to us?

22 MR. LESSER: I should like to do so,
23 Mr. Chairman.

24 THE CHAIRMAN: Thank you.

25 MR. LESSER: Mr. Chairman, Members of
26 the Commission, as the spokesman for the Retail
27 Merchants Association of Canada, Inc., I should
28 like concisely to highlight the brief prepared by
29 Professor Barber on our behalf, and at the same
30 time place emphasis on consumer co-operatives
from the viewpoint of independent retail
merchants.



1 I am an independent retail merchant,
2 owner-manager of the firm of LeRoy Jewellers Ltd.,
3 at Vancouver, B.C. While my own line of business has
4 not as yet been adversely affected by co-operative
5 advantage, I do take a keen interest in all branches
6 of retailing and I can foresee the day when all
7 independents, large or small, will be severely
8 caught in the squeeze between chains and co-operatives.

9 Professor Barber's brief, in consultation
10 with the R.M.A. of Canada, has outlined an
11 introduction "The Aims, Objectives, Activities
12 of our Association". The importance of our representa-
13 tions is due not to the Association itself, but
14 to the scope and magnitude of the retail industry
15 dominated by independent retailers, the largest
16 segment of small business in Canada, accounting in
17 the last 30 years for anywhere from 78% to 83% of
18 the total retail sales of the nation. I would say
19 that independents, therefore, have a pretty big
20 stake in the economy of the country.

21 Members of the Commission, independent
22 retailers are extremely concerned about tax law as
23 applied to merchandising or consumer co-operatives.
24 Professor Barber's analysis will show the rapid
25 growth of co-operatives far out of proportion to
26 independents, the reason for such rapid growth, and
27 the consequent trend of independents.

28 The analysis of the problem as exemplified
29 by chart, graph and other statistical assistance,
30 will show that co-operatives have an unfair
advantage over independents because of their favoured
tax treatment. The Retail Merchants Association
desires to achieve income tax equality between
consumer co-operatives and private retailers - it does



1 not desire the destruction of consumer co-operatives.
2 Put us on an equal taxation basis and we will prove
3 our right to maintain our proper share of the retail
4 sales of the nation. We are not afraid of
5 competition - chain stores have been our major
6 worry up to this time. Even discount houses do
7 not frighten the true independent. At least the
8 above-mentioned competition is fair and equitable
9 in respect to the application of our income tax
10 statutes, not so with consumer co-operatives.
11 During 1951 to 1961, co-operatives' sales increased
12 approximately 85% as compared to the national
13 average of 55%. Favoured tax treatment and untaxed
14 patronage dividends, together with a convenient
15 vehicle for the reinvestment of the tax savings
16 has made this disparity possible.

17 The Retail Merchants Association of
18 Canada, in its desire for equality of treatment for
19 all retail institutions, hopes to prove conclusively
20 that the present application of the Income Tax Act
21 as between co-operatives and retailers, is not
22 only unfair, but unless immediate redress of the
23 situation is taken, the good health of the retail
24 industry in Canada will suffer to a point where
25 ultimate recovery will not be possible.

26 Professor Barber, in his brief, deals
27 with the rate of growth of consumer co-operatives
28 and analyses statistically the problem confronting
29 independents. Pages 31, 46 and 57 are particularly
30 drawn to your attention.

Section III of our brief outlines the
reasons for growth of co-operatives and stresses
that taxation is the most significant growth
factor. It is the contention of the R.M.A. of Canada



1 that the superior growth performance of the
2 co-operative sector of the retail trade is the direct
3 result of more favoured tax treatment of
4 co-operatives' earnings under existing income tax
5 regulations.

6 Professor Barber, in his presentation,
7 shows by case history how co-operatives achieve
8 this income tax advantage. His case study of
9 Federated Co-operatives Ltd. v. Hypothetical Ltd.,
10 on Pages 82 - 86A of this brief, is certainly
11 worthy of close scrutiny. If the same tax structure
12 had been applied to Federated Co-operatives as a
13 private company, they would have paid \$15 million
14 in taxes instead of \$1½ million. Quite a subsidy,
15 this tax shelter provides -- quite a loss to the
16 tax treasury, and quite a tax burden for the
17 association taxpayer to assume. The small independent
18 merchant can hardly be the backbone of the nation's
19 economy with this yoke around its neck.

20 Section V of the brief deals with
21 arguments for the co-operatives regarding the present
22 tax regulations. Professor Barber destroys the
23 argument that co-operatives are non-profit and that
24 patronage refunds are not income of co-operative
25 corporations.. Legal and technical definitions of
26 what constitutes income are analysed and the
27 technical defence of the co-operatives' position
28 is contrasted with a clear case of inequity and
29 discrimination hoisted upon the private or
30 independent retailer. The monopoly argument of
co-operatives is challenged and the suggestion is
put forward that a co-operative monopoly would not
be any better than any other kind of monopoly.
Again, I would emphasize that the independent merchant



1 is being squeezed on the one hand by the chain,
2 which has access to the capital market for money
3 to expand, and on the other by the co-operative
4 which has tax free patronage refunds to reinvest.

5 Section VI of the brief lists four
6 compelling reasons for a change in the income tax
7 regulations:-

- 8 (1) To restore equity;
- 9 (2) To level the rate of growth of co-operatives
10 and preserve private businesses existence;
- 11 (3) Eliminate the hidden subsidy to co-operatives;
- 12 (4) Terminate the loss of revenue to the
13 public treasury.

14 The following sections of the brief explore
15 possible solutions on the basis that it is untenable
16 to the nation, at large, to leave the situation as
17 it is. It is concluded that the inequitable
18 situation can best be solved by legislation embracing
19 the final recommendations put forward in our sub-
20 mission. These proposals will be cited by Professor
21 Barber in his summary remarks.

22 Mr. Chairman, Members of the Commission,
23 thank you for your patient hearing. I hope that
24 this brief refresher of the position of the Retail
25 Merchants Association of Canada, from the viewpoint
26 of an independent merchant, has not been without
27 some added clarification.
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1 Now, Professor Barber will read the
2 Summary and Recommendations of the Retail Merchants
3 contained in the brief, if it meets with your
4 approval.

5 THE CHAIRMAN: Yes, it certainly does.

6 PROF. BARBER: Do you care to have me
7 read the Summary and Recommendations contained in
8 the brief, sir?

9 THE CHAIRMAN: They are at the end of the
10 brief, are they?

11 PROF. BARBER: At the beginning, the
12 first page. It is page I, really.

13 THE CHAIRMAN: We have all read them.

14 PROF. BARBER: It is pages (i), (ii), (iii)
15 and (iv).

16 THE CHAIRMAN: If you care to, by all
17 means do. They are fairly short and it might be a
18 good idea.

19 PROF. BARBER: Fine.

20 A. Basic Premise
21 The Retail Merchants Association of Canada
22 Inc. believes that the rate of growth of co-operative
23 retail trade exceeds the rate of growth of "private"
24 retail trade in the Dominion of Canada. The R.M.A.
25 believes further that this differential growth
26 rate is primarily the result of the application of
27 provisions of the Income Tax Act which have the
28 effect of conferring tax advantages on those retail
29 institutions under the co-operative form of
30 ownership.

The superior growth performance of
co-operatives is causing serious concern among
"private" retailers in Canada. It is because of
this concern that this submission to the Royal
Commission on Taxation concentrates on the relative



position of co-operatives and "private" merchandise institutions under the present Income Tax Act.

B. Examination of the Evidence Relating
to Economic Growth

The assumption that the co-operative sector of retail trade is growing at a more rapid rate than the "private" sector is tested in the following manner:

1. Through examination of evidence presented in

(a) The Report of the Royal Commission on Co-operatives of 1945.

(b) A monograph prepared for The Canadian Tax Foundation by Professor R. Craig McIvor entitled "Recent Growth in Canadian Co-operatives".

2. By analysis of available empirical evidence using the following methods:

(a) Preparation of semi-logarithmic plots of selected economic indicators to expose rates of growth of these indicators relative to each other.

(b) Construction of indices of growth of selected economic indicators to demonstrate a growth of the various indicators as a percentage of selected base years.

(c) Construction of regression lines for the selected economic indicators to expose growth trends in the chosen indicators for the period under consideration.

The analysis above is applied to data for (1) The Dominion of Canada, (2) The Atlantic Provinces, (3) Quebec, (4) Ontario, (5) The Prairie Provinces, (6) British Columbia and



1 (7) Saskatchewan.

2 From the analysis it is concluded that
3 growth of the co-operative sector of retail trade
4 has exceeded growth of the "private" sector for the
5 period under consideration.

6 C. Examination of the premise that
7 differential tax treatment is the
8 primary reason for more rapid
9 growth of the co-operative sector
10 of retail trade

- 11 1. Various possible reasons for the growth of
12 co-operatives are examined.
- 13 2. The development and application of income tax
14 provisions applied to co-operatives is examined
15 briefly.
- 16 3. An attempt is made to illustrate the impact
17 of the application of present legislation
18 on the development and growth of a co-operative
19 and an identical "private" competitor.

20 The above analysis (Section IV of the
21 brief) substantiates beyond reasonable doubt the
22 conclusion that the more favorable co-operative
23 growth rate is a function of co-operative tax
24 advantage.

25 D. Examination of the Co-operative
26 view of the present Income Tax Act

27 The co-operative arguments regarding
28 present income tax regulations are examined in the
29 light of actual conditions and are rebutted.

30 The conclusion resulting from this
examination is that the co-operative defense of
income tax status-quo is difficult to justify under



1 present economic conditions.

2 E. Recommendations

3 The Retail Merchants Association is con-
4 vinced that application of existing income tax
5 regulations confers a substantial competitive advan-
6 tage on those retail organizations organized on a
7 co-operative basis. The Association believes further
8 that the resulting inequity creates a very real threat
9 to the existence of many "private" retailers in
10 Canada.

11 To redress the competitive inequality
12 between co-operative and "private" retailers created
13 by the existing Income Tax Act this brief recommends:

- 14 1) The repeal of Section 73 (1) of the
15 Income Tax Act to remove the discriminatory
16 three-year tax exemption for new co-operatives.
- 17 2) The amendment to Section 75 to disallow
18 the deduction of patronage dividends in
19 the calculation of the net income of either
20 co-operatives or ordinary corporations.
- 21 3) The provision for tax treatment of
22 patronage dividends in the hands of
23 recipients similar to that imposed on
24 corporation dividends in the hands of
25 shareholders, granting at the same time,
26 equal tax credits or allowances which
27 may prevail.

28 THE CHAIRMAN: Thank you, Mr. Barber.
29 Mr. Lesser, we have with us today Mr. Stewart, our
30 counsel, to lead us in our questioning, but before
he does so I wonder whether you could reconcile the
numbers of retailers which there are in Canada.
I think your submission refers to 180,000. Sometimes



1 we hear the number quoted at 300,000. There is a
2 wide gap there and there must be an easy explanation
3 for it. Do you know what it is?

4 MR. LESSER: As far as I am instructed,
5 the figures which we have always gone by are the
6 180,000 total. It is possible that there may be
7 some very small, shall we say, corner grocer which
8 we might add to the total which we have here to
9 bring the figure up to the larger amount, but as
10 far as I know, according to the recent census figures
11 which we have, there were estimated to be about
12 180,000 retail outlets in 1961.

13 THE CHAIRMAN: Are they D.B.S. figures?

14 MR. LESSER: I believe that is correct.

15 COMMISSIONER WALLS: Your 180,000 would
16 not include service stations, would it, which might
17 be included in the 300,000?

18 MR. LESSER: I do not think that is the
19 case.

20 THE CHAIRMAN: Mr. Stewart, would you
21 care to proceed?

22 MR. STEWART: Thank you, Mr. Chairman.

23 Gentlemen, I should like to start by
24 asking you a couple of questions which arise out of
25 the compilations which are known as taxation
26 statistics. My first question will be based on
27 the 1963 taxation statistics, and I think will be
28 quite simple. The Secretary has given you copies
29 of these statistics, and I should like you to turn
30 to page 115. On that page we find information
with regard to the retail trade. At the bottom
of page 115, where we are dealing with a breakdown
of retail trade, we find that it is divided into
a number of items. The first is food stores. May I



1 take it that operators of food stores would be
2 included in your membership?

3 MR. LESSER: Yes, that is correct.

4 MR. STEWART: The next item is department
5 and variety stores. Would they also be included
6 among your members?

7 MR. LESSER: We have department store
8 members and variety stores.

9 MR. STEWART: Then there is an item
10 "Other General Merchandise". Your membership would
11 include people in this category, I suppose?

12 MR. LESSER: I would say so.

13 MR. STEWART: Then let me take the others
14 more or less collectively. There are auto accessories,
15 tires, service stations, motor vehicle dealers,
16 motor vehicle repairers, shoe stores, clothing
17 and dry goods. Then over the page there is hardware,
18 furniture and appliances, drug stores, fuel dealers,
19 jewellery stores. Are there any of those
20 classifications in which you would not have members?

21 MR. LESSER: I would say that we would
22 have members in all of the classifications.

23 MR. STEWART: Then there is a miscellaneous
24 item, "Other Retail Trade". I take it that you
25 might also have members who did not come within
26 the other specific categories but were nevertheless
27 engaged in the retail trade?

28 MR. LESSER: Yes.

29 MR. STEWART: Your members include,
30 you have indicated, department stores. I take it
they would include both large and relatively small
retail merchandisers?

MR. LESSER: Yes.

MR. STEWART: They cover the whole



1 gamut of retail merchandising.

2 MR. LESSER: Yes.

3 MR. STEWART: On page 7 of your
4 submission you make the statement, which was repeated
5 I think in Mr. Lesser's introductory statement,
6 that independent stores have consistently accounted
7 for between 78% to 83% of the total volume of retail
8 trade. When you are talking of independent stores
9 there you are talking about the single unit
independent store?

10 MR. LESSER: Yes.

11 MR. STEWART: You distinguish between
12 that type of store, on the one hand, and the chain
13 store and multiple outlet company on the other?

14 MR. LESSER: That is correct.

15 MR. STEWART: You say, I think also on
16 page 7, that you define a chain as a company which
17 operates four or more retail outlets. Just for the
18 record, if an owner operates two or three outlets,
do you treat him as an independent or as a chain?

19 MR. LESSER: I would say that he would be
20 treated as an independent, but that should be
21 qualified, possibly by the size of his operation.
22 In my own case I operate two stores, but I
23 certainly could not be classified as a chain. My
operation comparatively is a small one.

24 MR. STEWART: Then the results of your
25 operations would be reflected in the 78% to 83%
26 figures which appear at the top of page 7?

27 MR. LESSER: I would say so.

28 MR. STEWART: Are you familiar with an
29 organization called the Retail Council of Canada?

30 MR. LESSER: I believe I heard some
representations from them yesterday.



1 MR. STEWART: You were here when they
2 were present?

3 MR. LESSER: Yes.

4 MR. STEWART: You may have heard then
5 -- and I am speaking from recollection -- that they
6 indicated that they had 59 members at the present
7 time, and they said that those 59 members transacted
8 among them 30% of the retail store trade in Canada.
9 I am wondering how we can reconcile that particular
10 statement with your figures on page 7 which suggest
11 that the independents have between 78% to 83% of the
12 retail trade.

13 MR. LESSER: If I recall, yesterday, I
14 believe, some question was asked whether they
15 embraced smaller stores as well as chains and depart-
16 ment stores, and I believe they said that they do.

17 MR. STEWART: Yes.

18 MR. LESSER: So consequently there could
19 be an overlapping in that direction.

20 THE CHAIRMAN: There could not be very
21 much. There are only 59 members, are there not?

22 PROF. BARBER: May I interject here.
23 On pages 114 and 115 of our brief there are two
24 statistical tables indicating the breakdown of the
25 market share of various kinds of retail institutions
26 at the present time, which figures are taken from
27 the Dominion Bureau of Statistics.

28 MR. STEWART: It is from this table
29 that you derive your 78% to 83%, is it?

30 PROF. BARBER: I suggest that the
tables have a higher degree of precision than the
statement on page 7, which is ---

MR. STEWART: I see. On page 114, these
percentages of the total market for the independents



1 run from 71.45% in 1957 down a gradually descending
2 scale until 1961, and then they rise again slightly
3 in 1962. But in 1962 they amount to 68% of the
4 total retail trade.

5 PROF. BARBER: The discrepancies which
6 arise in this area are probably related to definitional
7 problems. Certain people define certain classes
8 of trade for their own purpose, and the figures
9 which appear on pages 114 and 115 are based on
10 the D.B.S. definition of independents, chains,
11 department stores, co-operatives, etc.

12 MR. STEWART: Because, you see,
13 Mr. Barber, looking at page 114, the first two
14 items, the retail chain figure for 1962 is 15.93%.
15 The department store figure is 7.05%.

16 MR. BARBER: Yes.

17 MR. STEWART: If we were to assume that
18 the Retail Council of Canada membership is found
19 mainly in those two categories, this amounts only to
20 about 23%, whereas they are claiming 30%. Your
21 independents in 1962 amount to 68%, but there is a
22 figure here for consumer co-operatives of 8.79% as
23 well. In any event, it may be, from what you say,
24 that your figures of 78% to 83% are on the high side,
25 but you cannot throw any further light on this
26 apparent discrepancy.

27 PROF. BARBER: On page 11 there is another
28 table, from 1930, 1941, 1951 and 1961, indicating
29 how this has changed.

30 MR. STEWART: These figures relate to
chain stores and independents. Do we know what is
included in chain stores for this particular purpose?

PROF. BARBER: Well, the definition, the
D.B.S. definition, of what constitutes a chain store



1 is on the other page, page 7.

2 MR. STEWART: Four or more outlets?

3 PROF. BARBER: Four or more outlets
4 without regard to volume of sales or anything else,
5 to the best of my knowledge. It is just that if a
6 guy has four or more outlets he is operating a chain.

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1 MR. STEWART: However, it is difficult for
2 me to reconcile page 11 with the statement of the
3 Retail Council of Canada, because, again, I would
4 have assumed that most, if not all, of their members
5 were in the chain store category, for page 11 purposes,
6 and the chain store category in 1961, on page 11,
amounts to only 21 per cent.

7 PROFESSOR BARBER: There are definitional
8 problems, I think, in this area. With regard to this
9 I and 2, when an organization like the Retail Council
10 says "We have 30 per cent of the business", or when
11 the Retail Merchants Association says "We have 75 per
12 cent of the business", I think these are probably
13 relatively loose figures." Harmless trade puffery,"
14 I think is a marketing term applied to this sort of
thing.

15 MR. STEWART: I see that you have indi-
16 cated that your members are concerned about the
17 burden of income tax that they pay themselves, and
18 the tax paid by the consumer cooperatives. For this
19 purpose I would like to refer to the 1962 Taxation
20 Statistics. I might say I am referring to 1962 rather
21 than 1963 purely because when I was preparing some
22 figures which I am going to show to you I had the 1962
23 volume at hand. I checked this morning with the
24 1963 volume, and I do not think that the position
25 disclosed there, in the respects which are material,
is essentially very different.

26 I shall give you, for convenience of
27 reference, gentlemen, a page of figures which I have
28 taken from the 1962 Taxation Statistics and then I
29 am going to ask you to look at the individual pages
30 of that book so that you can see how I derive the
figures. I may say that the breakdown of retail trade



1 in the 1962 volume is the same as it was in the 1963
2 volume, which we have gone over. They are the same
3 sub-classifications of retail trade.

4 If you would look at page 11 of the 1962
5 volume you will see that there are figures with re-
6 gard to active taxable companies reporting profits for
7 the year 1960, and in the first group there is an item
8 "Retail Trade". The number of companies concerned is
9 shown to be 10,819. One column over we find their
10 average profit, which is \$23,809, and three columns
11 over from that we find the average tax paid, which is
12 \$8,019.

13 While we are dealing with that particular
14 page and section, you will observe that the total
15 number of profit companies dealt with is 64,100, but
16 the average profit of all the companies is \$53,000,
17 which is substantially more than the average profit
18 of companies in the retail trade; and that the average
19 tax paid is \$19,000 odd, which again is substantially
20 more than the profit shown by companies in the retail
21 trade.

22 Have I indicated how I got those first
23 three figures?

24 PROFESSOR BARBER: Yes.

25 MR. STEWART: In the retail trade, we have
26 seen on page 11 that there were 10,819 profit compa-
27 nies dealt with, and if you look at page 11⁴ I think
28 you will find that the number of loss companies in the
29 retail trade before 1960 was 5,420, which is the
30 figure which I have also shown on this sheet.

Then on page 145, in table 4 we find the
Taxation Statistics related to the distribution of
fully tabulated companies by industrial classes. On
page 145, in the fourth section -- the third section



1
2 deals with wholesale trade figures -- it starts with
3 food stores and carries on for the rest of that page,
4 pages 146, 147 and 148, with other branches of the
5 retail trade. Then in the right hand column on page
6 148 the retail trade figures are summarized. It
7 appears, in line 27 under the summary figures, that
8 the sales of profit companies in the retail trade for
9 1960 aggregated at \$8,065 million. Then it appears,
10 from line 48, that the profit of these companies
11 before tax was, \$249.3 million; and that seems to
12 indicate that the profit before tax amounted to
13 approximately three per cent of sales in that parti-
14 cular year.

15 Would that seem to you to be a typical
16 percentage of profit before tax for companies in the
17 retail trade.

18 PROFESSOR BARBER: I suppose, on an average
19 basis -- "typical" is a difficult word. This is an
20 average; a mean, probably. The modal return might be
21 considerably above three per cent. I do not know;
22 I have not a figure range. I think it is somewhere
23 between 1 and 7, 2 and 8 -- somewhere in this range.
24 I do not know offhand. Three is a good figure, but
25 I am not sure that it is a good mode.

26 MR. STEWART: I am talking now about the
27 average.

28 PROFESSOR BARBER: All right.

29 THE CHAIRMAN: Is not the word "mode" one
30 form of average?

PROFESSOR BARBER: It is one form of average
-- mean, median, mode; and a mode is the most fre-
quently occurring.



1
2 THE CHAIRMAN: You were using it to
3 distinguish it from an average; I would use it to
4 distinguish between a mean and a median.

5 PROFESSOR BARBER: Yes, all right.

6 MR. STEWART: If you would go back to page
7 9 of the Taxation Statistics, in the second table on
8 the page they deal with proprietors. There again,
9 there is an item "Retail Trade", and we find that the
10 number of proprietors in the retail trade is 77,773;
11 and you will note that on my sheet I have put that
12 this excludes non-taxable persons, which appears from
13 the introductory comments to this volume.

14 Then you will observe that the average
15 income of these proprietors in the retail trade is
16 \$5,398, and the average tax paid by them is \$584.
17 I would just ask you to turn to pages 158 and 159,
18 where we find table 6. This table is a distribution
19 of fully tabulated profit companies by income classes.
20 You will observe on the right hand side that they are
21 dealing with a total number of profit companies of
22 63,312. Then, if you look at page 158, the first
23 three classifications are of companies which have
24 profits of less than \$25,000 a year.

25 I have added up the number of companies
26 in those first three classifications and my addition
27 is that there are 52,646 companies with profits of
28 less than \$25,000. That is 83 per cent, approximately,
29 of the total number of profit companies.

30 I have then added up the profits of the
companies in these first three classifications, which
you find in line 48 on page 158, and that figure,
I think, is \$373,600 million. There should be a



1
2 decimal point rather than a comma, after the "373".
3 This same mistake occurs in the next line at "56";
4 it should be "\$56.7 million".

5 Then you will observe further down under
6 "cooperatives" that there is a figure of what appears
7 to be \$8,800 million. That should be "\$8.8 million;
8 and the next should be "\$2.1 million". Again, in
9 line 49 on page 158, the tax paid by these smaller
10 companies appears, and I have totalled that to \$56.7
11 million. So that if I take the companies whose profits
12 are \$25,000 or less, they work out at approximately
13 \$7,000 per company, and the tax which they pay amounts
14 to roughly \$1,100 per company.

15 You will recall that when we were looking
16 at companies in the retail trade we found that their
17 average profit and their average tax was less than
18 the average profit and the average tax of companies
19 generally. Do you recall that? Would you mind,
20 Professor Barber, instead of nodding, saying what the
21 answer is, so that the reporter can get this down?

22 PROFESSOR BARBER: Yes. The answer is yes.

23 MR. STEWART: I do not ask you to concede
24 this, but I ~~do~~ said it is probable that in the case of
25 companies in the retail trade there would be at least
26 83 per cent whose profits were \$25,000 or less. Would
27 that seem to be a fair assumption?

28 PROFESSOR BARBER: It is not unreasonable.

29 MR. STEWART: Then these Taxation Statis-
30 tics unfortunately do not give us a great deal of
information about cooperatives. The reason for that
is indicated in the editorial comment in the volume.
But if you would look at page 110, in table 1 there is



1
2 a general statement of all corporations tabulated.
3 Then you will observe that about half way down the
4 table there is a line for cooperatives. It appears
5 from that line that there are 2,484 cooperatives
6 dealt with, of which 1,878 are profit companies. Then
7 their net taxable income is shown as \$8.8 million.
8 The total tax paid by them is shown as \$2.1 million,
9 and I have done some rough mathematics, from which
10 it appeared that the average profit of these profit
11 companies was \$4,700, and the average tax paid was
12 approximately \$1,100.

13 PROFESSOR BARBER: Pardon me, sir. In this
14 calculation of average profit, is this average profit
15 as reported on income tax returns in line with the
16 requirements of the Income Tax Act or is this average
17 total income of the cooperatives for the given year
18 under consideration? This makes a material dif-
19 ference in this case.

20 MR. STEWART: If what you are getting at
21 is whether this is profit after deduction of patronage
22 dividends ---

23 PROFESSOR BARBER: Yes.

24 MR. STEWART: -- I assume that patronage
25 dividends have been deducted.

26 PROFESSOR BARBER: Fine.

27 MR. STEWART: Because you will observe
28 that the column from which I took that \$8.8 million
29 figure is headed "Net Taxable Income".

30 PROFESSOR BARBER: Yes.

MR. STEWART: I think perhaps, Mr.
Chairman, this piece of paper that I have prepared
and gone over with these gentlemen may be of some



1
2 use and it might be marked as an exhibit.

3 THE CHAIRMAN: Yes, I think it would be
4 easier all around if it was.

5 THE SECRETARY: It will be Exhibit 297,
6 Mr. Chairman.

7 --- EXHIBIT 297: Document headed
8 "Taxation Statistics,
9 1962, dated January
10 8, 1964.

11 PROFESSOR BARBER: Mr. Chairman, could we
12 have it indicated on the exhibit -- Mr. Lesser has
13 just put this request to me -- that in the case of the
14 cooperatives these figures are after the deduction of
15 the patronage refund paid.

16 MR. STEWART: I have no objection to that.

17 THE CHAIRMAN: That is in the record, of
18 course.

19 PROFESSOR BARBER: That is fine.

20 THE CHAIRMAN: I mean, what you say is
21 being recorded.

22 PROFESSOR BARBER: Is it material that it
23 is not on the data sheet?

24 MR. STEWART: I think perhaps the simplest
25 course, Professor Barber, might be that where we say
26 "Total Profit Before Tax", to put in brackets "Net
27 Taxable Income", which is the expression used in the
28 statistics.

29 PROFESSOR BARBER: That is fine.

30 MR. STEWART: The Chairman was asking a
few minutes ago about the number of persons engaged
in the retail trade. It is rather interesting that
according to the taxation statistics the number of



1
2 profit companies engaged was 10,800 in 1962, and the
3 number of loss companies in 1962 was 5,400, and the
4 number of proprietors, excluding non-taxable proprie-
5 tors, was 77,000. The total of those three would be
6 somewhere around 93,000 or 94,000, which is only
7 about 50 per cent of even 180,000. So what would
8 your explanation be of the difference between that
figure and the 180,000?

9 PROFESSOR BARBER: Just offhand I would
10 say that either the Dominion Bureau of Statistics
11 is bringing into these figures a number of people
12 who do not exist, or the taxation branch is failing
13 together into its net the number of people who should
possibly be there.

14 MR. STEWART: I take it that it may be
15 that the non-taxable proprietors are very numerous.

16 PROFESSOR BARBER: Yes, undoubtedly; but
17 I would have thought they would be required to submit
18 a return and that this would be recorded somewhere in
these taxation statistics. But possibly not.

19 MR. STEWART: I think an individual who
20 is not in a profit position is not required to file
21 a return. Looking at our exhibit again for a moment,
22 as I have indicated, the information which we have
23 with regard to cooperatives is limited; but I gather
24 from page 13 of your submission -- and I refer in
25 particular to the second sentence of the second
26 paragraph on that page -- that you are particularly
27 concerned about tax law as it is applied to mer-
chandising or consumer cooperatives?

28 PROFESSOR BARBER: Yes. We did not
29 consider in detail producers cooperatives.
30



1
2 MR. STEWART: It seems to me, gentlemen,
3 that the information which is available to us with
4 regard to consumer cooperatives is extremely limited.
5 You have given us in your submission certain sales
6 figures with regard to merchandising cooperatives.

7 PROFESSOR BARBER: That is right.
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2 MR. STEWART: But have you any figures
3 which establish what consumer co-operatives pay
4 by way of patronage dividend?

5 PROFESSOR BARBER: No. Each individual
6 co-operative pays its patronage refund on the
7 basis either of the by-laws of the individual
8 co-operative, or the wishes of membership of
9 the individual co-operative. This information
10 would be very difficult to give, I think, because
11 you would have to go to each individual co-
12 operative. There would be no central collection
13 of this, I should not think.

14 MR. STEWART: As far as you know there
15 is not?

16 PROFESSOR BARBER: As far as I know
17 there is not a single collection of this. The
18 Department of Agriculture is primarily responsible,
19 I think, for collection and dissemination of figures
20 relating to co-operatives, and this is of fairly
21 recent origin, their activity in this respect.
22 I do not know whether they collect it or not.

23 MR. STEWART: Do you know of any
24 information as to the taxes which are paid by a
25 consumer co-operative?

26 PROFESSOR BARBER: Presumably the
27 Taxation Department would have this. I did not
28 have access to it except in the case of those
29 specific co-operatives with which I am familiar,
30 like Federated or Saskatoon Co-op. I have a
statement of theirs.

MR. STEWART: If we look again at the
exhibit, there is a figure for tax paid by all co-



1
2 operatives. You do not know the breakdown of
3 those figures between consumer co-operatives and
4 other co-operatives, do you?

5 PROFESSOR BARBER: No, I don't.

6 MR. STEWART: Have you any information
7 as to the taxes which are paid by the patrons of
8 consumer co-operatives of their patronage
9 dividends or refunds?

10 PROFESSOR BARBER: I do not have this
11 information. I think this would be even more
12 difficult to get because you would have to go to
13 each individual's return, to the private indi-
14 vidual himself. I would not have access to it
15 anyway.

16 MR. STEWART: Now, gentlemen, looking
17 at the figures which appear on this page and which
18 have either been extracted or derived from taxation
19 statistics, does it not appear that the average
20 retail merchant in 1960 paid very little income
21 tax?

22 PROFESSOR BARBER: On the basis of
23 the evidence presented, it would appear that the
24 average retailer paid relatively little income
25 tax; but I should like to interject a little anecdote
26 at this point. I am presently studying at the
27 University of Washington and I have a friend there
28 who is very careful about these things. His latest
29 gimmick is to look me straight in the eye, get very
30 serious, and say to me: "Do you know, fully half
 the people in the United States are below average".
 So I think the averages in cases like this can be



1
2 very misleading, and I am not sure, in cases of
3 this kind, whether they bring out the information
4 which is material.

5 MR. STEWART: Well, I am struggling,
6 Professor Barber, with the information which does
7 seem to be available. We appear to be in the
8 position that we have the aggregate tax paid by
9 roughly half the retail merchants in the case
10 of the corporations, leaving loss companies out
11 of it all together, from which it would appear
12 as though the average retailer paid less than
\$1,100 in tax.

13 PROFESSOR BARBER: But when you compare
14 this with the average co-operative, as you have
15 done at the bottom of the page, I think, because
16 of the paucity of information in the case of co-
17 operatives, the comparison loses its meaning. I
18 think it would be quite relevant to compare one
19 retailer with another, but I am not sure that it
20 is relevant to compare a retailer with a co-
21 operative. In the first place, I presume that
22 these co-operatives statistics which you have
on page 110 include both consumer and producer
co-operatives.

23 MR. STEWART: I assume so.

24 PROFESSOR BARBER: Secondly, the average
25 tax is paid on average profit, but after the
26 deduction of patronage refund, so that the
27 comparison of this with the retail institution
28 is not meaningful.

29 MR. STEWART: I quite appreciate the force
30



1
2 of what you have said, and I am not suggesting that
3 one could draw that particular conclusion, or type
4 of conclusion, from this information; but I am
5 going to make a suggestion to you on this point
6 in a minute. It does appear, I think we have
7 agreed, that the average corporation in the retail
8 trade, or the great majority of the corporations
9 in the retail trade, will pay an average tax of
10 less than \$1,100, and that if you look at the
11 average proprietor he pays a tax of less than \$600.
12 If you brought in the non-taxable ones, the figure
13 presumably would be very much less than that. Is
14 this a reasonable conclusion?

15 PROFESSOR BARBER: I think so. One of
16 the things in the case of profit companies, that
17 is incorporated retail institutions, with the
18 \$35,000 limit, I suspect within the discretionary
19 powers of the directors of a retail corporation,
20 that there is probably a decided effort to keep the
21 profitability of the corporation below \$35,000.
22 So that this could distort the figures. I think
23 these are 1960. When was it raised from \$25,000
24 to \$35,000? Was that in 1961? Therefore, you
25 probably find with these figures a decided effort
26 to keep the profit below \$25,000 to minimize the
27 total tax bill.

28 MR. STEWART: That is conceivable, but
29 all we can deal with is the amount of tax which was
30 paid.

PROFESSOR BARBER: Yes.

MR. STEWART: Now, just let me put this



1
2 to you. If we take a small merchant in the retail
3 trade and a co-operative of comparable size, and
4 consider their retail operations alone, the tax
5 advantage of the co-operative over the retail
6 merchant cannot be very substantial.

7 PROFESSOR BARBER: Using again average
8 figures, as an absolute amount not very great. But
9 if the co-operative has 100 per cent more surplus
10 to work with, his advantage is 100 per cent in
11 terms of usable surplus. It is my feeling that
12 even if this amounts only to \$500, if the co-operative
13 has \$500 it can use and the retail merchant does
14 not have this \$500 to use, the advantage to the
15 co-op is material.

16 MR. STEWART: Let me ask you to make
17 this assumption: that we happen to have a retail
18 merchant and a retail co-operative who both have
19 an average profit before tax of \$7,000, and that
20 the retail corporation has paid \$1,100 in tax. Let
21 us assume for the moment that the co-operative pays
22 \$500 in taxes. This is a purely arbitrary figure.
23 The amount which the retail merchant can distribute
24 by way of dividend, if he chooses to, is the
25 difference between \$7,000 and \$1,100, which is
26 \$5,900.

27 PROFESSOR BARBER: Right.

28 MR. STEWART: The amount which the
29 co-operative can distribute by way of patronage
30 refund, if it chooses to, is something between
\$7,000 and \$500. Is that correct?

PROFESSOR BARBER: The difference between



1
2 \$7,000 and \$6,500, yes.

3 MR. STEWART: So that the tax element
4 in this is, I suggest, a very small portion of
5 the total.

6 PROFESSOR BARBER: But you started with
7 two companies which had a \$7,000 net income
8 for taxation purposes.

9 MR. STEWART: I am assuming in the case
10 of the retail merchant that he has net taxable income
11 of \$7,000. I am assuming in the case of the
12 consumer co-operative that they have a corresponding
figure before patronage refund of \$7,000.

13 PROFESSOR BARBER: I see.

14 MR. STEWART: I put it to you that in
15 the one case there is \$5,900 available to people
16 other than the tax collector; in the other case,
17 if we assume that the co-operative pays \$500 in
18 tax, there is \$6,500 available to people other
19 than the tax collector. So the tax element here
20 amounts to \$600, on this arbitrary example, out
of approximately \$6,000.

21 PROFESSOR BARBER: Ten per cent.

22 MR. STEWART: Ten per cent of the total
amount available for distribution.

23 PROFESSOR BARBER: Yes. That is assuming
24 that \$500 is the tax they would actually pay, which
25 depends on the application of the 3 per cent
26 provision to their capital employed.

27 MR. STEWART: Yes, and the question of
28 reserve, and so on.

29 PROFESSOR BARBER: It is difficult to
30



1
2 establish but it is not an unreasonable figure.

3 MR. STEWART: Well, I have simply pulled
4 the figure out of the air and I have no idea whether
5 it is a reasonable figure or not. You give the
6 impression in this brief, or you give me the
7 impression, that this tax differential which you
8 say is unwarranted is a matter of life and death
9 to the retail trade. I wonder if you would comment
10 on that having regard to the fact that we appear
11 to be talking about 10 per cent of the amount avail-
12 able for distribution.

13 PROFESSOR BARBER: Ten per cent of the
14 amount available for distribution, cumulated and
15 compounded at some reasonable market rate of return
16 in the way I have demonstrated, represents a
17 substantial amount of money. So that while the
18 impact of this kind of analysis in any given year
19 may be relatively minor, it is the cumulation of
20 this which causes an individual retailer to shake
21 his head and wonder where he is going.

22 If you were in the retail business in
23 Saskatchewan, for example, where the co-operative
24 movement is extremely well developed and powerful,
25 where the differentials in the case of Federated or
26 Saskatoon Co-operative, or Sherwood Co-operative
27 in Regina, where the differentials are all of
28 greater magnitude than the one you pose, and you
29 were competing with them, you would shake your head
30 even more.

MR. STEWART: This depends to some extent,
of course, on the use you made of the \$600, Professor



1
2 Barber, would it not?

3 PROFESSOR BARBER: Yes.

4 MR. STEWART: If we take one possibility
5 which you referred to in your brief, that the tax
6 payable by the retail merchant was reduced to the
7 level of the tax paid by the co-operative, it by
8 no means follows that this differential would be
9 employed by the retail merchant and plowed back
into the business.

10 PROFESSOR BARBER: And if he did not
11 he would be faced with ultimate demise as a
12 retailer in face of the competition of someone who
13 was calling it back.

14 MR. STEWART: If we took the other more
15 current position, if the tax differential is
16 distributed, in whole or in part, to the patrons
17 and not re-employed in the business, then the
18 impact of the differential is again reduced.

19 PROFESSOR BARBER: Yes, is minimized.

20 MR. STEWART: We just do not know what
proportions.

21 PROFESSOR BARBER: However, when it is
22 distributed, while the impact on the retailer is
23 reduced in terms of the differential growth rate
24 possible, there remains the other element which I
25 mentioned in the brief of the necessity for a
26 consumer to shop at the co-operative store in order
27 to maximize his position as a consumer to the extent
28 that the corporate retailer must base a portion of
29 the tax which he bears, and the co-operative retailer
30 does not have to do that because he bears a much
smaller rate of tax. So that this would remain



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2 as an element in the economic situation, regardless
3 of whether the dividend was reinvested, or whether
4 it was, in fact, paid out in cash. So that this
5 consideration remains, and to my way of thinking
6 it is a very important consideration.

7 MR. STEWART: Now I should like to
8 refer to another consideration, which may also
9 be important, and I should like your views as to
10 its importance. Is this position not complicated,
11 and from your point of view made worse, by the
12 emergence of the co-operative wholesales? What
13 I have in mind there is that as the co-operative
14 movement has matured, these wholesales have come
15 into existence. They have captive markets or
16 captive customers and ---

17 PROFESSOR BARBER: And captive sources
18 of supply, I might add.

19 MR. STEWART: To an increasing extent.

20 PROFESSOR BARBER: Yes.

21 MR. STEWART: And they increase the
22 income of member co-operatives through the payment
23 of patronage dividends.

24 PROFESSOR BARBER: All right.

25 MR. STEWART: This, I presume, for the
26 average co-operative member makes membership in
27 the co-operative that much more attractive.

28 PROFESSOR BARBER: I think so. If he
29 could sort out these elements, yes, considerably
30 more attractive.

MR. STEWART: What I want to ask you is
this. If these tax differentials are to be



1
2 eliminated, and if we are to consider the
3 elimination of these differentials, is there not
4 a stronger case for eliminating them as regards
5 the wholesales and the inter-provincials than
6 there is for the actual retail co-operative?
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1 PROF. BARBER: Based on a consideration
2 of the absolute magnitude of funds involved and
3 therefore the rates applied to these funds, no doubt;
4 based on the percentages involved, I am not so sure --
5 that is, apart from the graduated rates.

6 MR. STEWART: What I am getting at is
7 perhaps another aspect of it. There are certain
8 ideological grounds for the establishment of small
9 co-operatives.

10 PROF. BARBER: Yes.

11 MR. STEWART: I wonder whether these
12 grounds are as strong when you come to consider the
13 wholesalers and these larger corporations which are
14 formed not by the individual member but by
15 co-operative corporations.

16 PROF. BARBER: In the original stages of
17 the formation of an organization like Federated
18 Co-operatives it was predicated on the ideological
19 grounds. Now that Federated has developed -- Federated
20 being the best example -- a position of commanding
21 importance in the co-operative movement, I would
22 think offhand that in the merchandising co-operatives
23 -- and I am not considering now the producer
24 co-operatives -- Federated Co-operatives is the
25 strongest single unit. So the impetus now for the
26 formation of many of the local co-operatives comes
27 not from people in a local area but in fact from
28 Federated in an effort to increase its market and
29 its market share. So I am not sure that the
30 ideological considerations for the formation of
small co-operatives mean any longer what they used
to mean because the impetus frequently comes from
Federated. I know a number of cases where private
dealers have gone out of business and turned to



1 Federated in an effort to sell their assets, and
2 there is a regularized organizational procedure for
3 these people to go through to attempt to establish
4 a co-operative in a local area so that Federated is
5 willing to purchase their assets. This is hardly an
6 ideological formation of assets -- at least, I do not
7 think it is.

8 MR. STEWART: Professor Barber, in your
9 opinion is it possible to draw a line between small
10 co-operatives on the one hand, which have a restricted
11 number of members and perhaps a restricted volume
12 of sales, and the larger co-operatives, perhaps of
13 the wholesale or interprovincial type, and having
14 drawn that line to say that the smaller ones may
15 have a stronger claim for some preferential tax
16 than the ones on the other side of the line?

17 PROF. BARBER: I think only if you draw
18 the line between the small retailers and big retailers
19 or between small retailers and wholesalers. I do
20 not think the small co-operative has any more claim
21 to preferential treatment than the small retailer.
22 I just do not think that is the case.

23 I am very familiar with one case. My
24 father is in the retail lumber and hardware business,
25 and his premises are approximately 15 miles from
26 a co-operative premises. He has to compete with
27 the co-operative on a daily basis. They are both
28 small. The competition is just as tough as if
29 they were both big -- tougher.

30 THE CHAIRMAN: Is your father's business
incorporated?

PROF. BARBER: Yes, it is, primarily
because he has sons.

MR. LESSER: Mr. Stewart, may I interject



1 for a moment? I notice that you placed some emphasis
2 on the ideological approach to co-operatives, and I
3 have in the brief that we have submitted listed a
4 number of advertisements which appear at the end of
5 the brief. I would like to draw these advertise-
6 ments to the attention of the Commission from an
7 ideological standpoint. You might take the first one,
8 the Saskatoon Co-operative Association Limited.

9 MR. STEWART: You are now looking at
10 Appendix E.

11 MR. LESSER: Yes. I am looking at
12 Appendix E, that is correct.

13 If we look at the copy of this particular
14 advertisement, first of all we will see that it
15 appears to be copy that might be posed to attract
16 the public generally. For example, "Anyone May
17 Shop at Our Co-op!". One dollar is the nominal
18 fee for joining. This to me sounds very much like
19 how to join a discount house-- pay \$1 membership.
20 The appeal is the same. It is just another form
21 of advertising to gain profit.

22 I do not think you can call this an
23 appeal for membership on an ideological basis.
24 I would say that if the co-op was interested in
25 their members, rather than the public generally
26 they might use direct mail as a form of advertising
27 rather than newspaper advertising, which of course
28 is much more costly. Also, I would say that
29 direct mail to members alone would certainly be
30 far more intimate and would not be an appeal to
the public generally.

MR. STEWART: Do they not add there that
membership means ownership and with ownership comes
the added benefits of patronage savings and a voice



1 in the control of a locally-owned business?

2 MR. LESSER: They do state that, but I
3 believe that the annual meeting of this particular
4 co-operative, which boasts some 19,000 members,
5 only attracted 300. Only approximately 300 members
6 turned out to the annual meeting.

7 MR. STEWART: Mr. Lesser, I do not think
8 that that is a very significant figure. I can
9 think of companies who have hundreds of thousands of
10 shareholders and who would be delighted to have
11 300 at their meeting.

12 MR. LESSER: They do not purport to be
13 democrats.

14 PROF. BARBER: Joint stock companies?

15 MR. STEWART: Yes.

16 PROF. BARBER: We must have gone to
17 different schools.

18 MR. STEWART: Well, perhaps we went at
19 different times. I am afraid you will not get me
20 to concede that a joint stock company is not a
21 democratic organization.

22 PROF. BARBER: I would like to debate that
23 with you but I do not think this is the place.

24 MR. STEWART: I am sorry, Mr. Lesser, I am
25 afraid I interrupted.

26 MR. LESSER: I will not get involved in
27 that argument because I do not think it is pertinent,
28 but I wish to draw attention again to an advertisement
29 by the Co-op Centre; it is the Saskatoon Co-op,
30 and the advertisement is featuring items such as
cameras. I would say, pricewise, from a study
of the advertisement itself it would appear that
this could well be a discount house if the name
"Co-op" were deleted -- and at least discount houses



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2 do pay their share of taxes. This certainly is
3 no different from an ordinary profit business, and
4 I cannot see anything ideological about this type of
5 advertising.

6 When we proceed a little further along
7 we come to what I think is the best example of all
8 in an advertisement by the Elgin Lumber Co-op. They
9 advertise "Win a Free Bermuda vacation for Two!"
10 I would say that this gimmick -- because that is all
11 it is really -- perhaps should have been advertised
12 as being "Courtesy of the federal Treasury Department"
13 because the subsidy that perhaps permitted this
14 Bermuda vacation came as a result of the taxation
15 situation which favours co-operatives. But again,
16 the point is that it is an appeal to the public; it
17 is a gimmick; it is typical of private business;
18 and it is done in such a way as to draw away from
19 the independent retailer.

20 In my submission, one cannot justify
21 this type of operation as being ideological in the
22 sense that it is providing an honest service for
23 members. It would appear to be a direct appeal to
24 the public, and as such I would say that co-operatives
25 of this nature should be placed on the same basis
26 as ordinary retail business.

27 MR. STEWART: Your point in substance
28 is that these people are carrying on business for
29 profit in exactly the same way as you are and that
30 they should be taxed accordingly?

MR. LESSER: Yes.

MR. STEWART: I would like to go back for



1 a moment to page 7 of your brief. At the bottom of
2 that page and at the top of page 8 you indicate
3 that you expect that the share of total retail
4 sales which the chain stores will acquire will be
5 stabilized at around 28%. Why will this stabilization
6 occur?

7 PROF. BARBER: There has been quite a
8 lot of attention devoted recently to growth curves
9 of industry, market saturations, and things of this
10 type. I would suggest that the stabilization
11 would occur because of this phenomenon. It is the
12 Gomperts curve analysis and it indicates a curve-
13 linear relationship between the age of the business,
14 its position and its rate of growth, and one thing
15 and another. It is probably applicable in this
16 case. There is a saturation point for this type of
17 thing.

18 MR. STEWART: On the same basis, would
19 there be a stabilized figure for consumer co-operatives?

20 PROF. BARBER: I would expect so.

21 MR. STEWART: What would you estimate
22 that to be?

23 PROF. BARBER: They would like to get
24 30% of the total market, by their own admission.
25 This is a functional thing; it is a very difficult
26 thing to sort out.

27 If a man says he wants 30% of the market
28 and has it in his power to get 30% of the market
29 and achieves his 30%, and then he says "I have
30 achieved my objective", and if he does not care to
set himself a new objective, then he will stay at
30% of the market. This happens.

MR. LESSER: This appears at page 63 of



1
2 our brief. It documents the annual report of
3 Federated Co-operatives Limited in which they suggest
4 that co-operatives will have to do 20% to 30% of
5 the total retail business in the fields in which they
6 are engaged to perform an effective job as a balance
7 wheel in the economy.

8 MR. STEWART: Let us just see what has
9 happened so far. If we look at page 10 and if we
10 take the year 1961 we find that total retail sales
11 in Canada in that year amounted to \$16,664,000,000.

12 PROF. BARBER: Right.

13 MR. STEWART: If we look at page 12 we
14 find that the total sales of purchasing co-operatives
15 in the same year, 1961, amounted to \$388,022,000.
16 Is that correct?

17 PROF. BARBER: Correct.

18 MR. STEWART: I have tried my hand at
19 mathematics again and I estimate that the \$388 million
20 is about 2.35% of the retail sales for that year.

21 PROF. BARBER: Right.

22 MR. STEWART: I would like to ask you to
23 adjust these figures by eliminating the Province of
24 Saskatchewan because you point out in your brief
25 that there are special reasons in Saskatchewan for
26 a larger percentage of retail sales being through
27 the co-operative movement. If we deduct from the
28 1961 sales, for Canada, your \$16,664,000,000 the
29 Saskatchewan sales, which appear on page 51, of
30 \$901,000,000, the balance is \$15,763,000,000. If we
deduct from the merchandising sales of \$388,000,000
the Saskatchewan sales, which appear on page 51,
of \$82,000,000, the balance is \$306,000,000. So
leaving out Saskatchewan, according to my calculations



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2 these sales of purchasing co-operatives are less than
3 2% of the total Canadian retail trade. Would you
4 accept that figure?

5 PROF. BARBER: Yes.

6 MR. STEWART: On page 12 we have the
7 figures for purchasing co-operatives, which in 1961
8 amounted to \$388,000,000. I take it that only some
9 portion of that total \$388,000,000 represents retail
10 sales for retail outlets.

11 PROF. BARBER: On page 32 there is Table
12 No. I showing selected economic indicators for the
13 Dominion of Canada, and there the figure for 1961 of
14 \$388,022,000 coincides with purchasing co-operatives.

15 PROF. BARBER: This is the figure that is
16 included in the national accounts.

17 MR. STEWART: Professor Barber, I would like
18 to refer you to Appendix B of your report which is
19 an extract from the report of the Royal Commission
20 on Co-operatives. If you will look at page 4 of Appendix
21 B you will find that we are dealing with a comparison
22 between co-operative merchandising and retail trade.
23 About halfway down on the page you will find some
24 figures for the year 1941.

25 PROF. BARBER: Yes.

26 MR. STEWART: There, sales through retail
27 stores including consumer co-operatives amounted to
28 \$3,440,000,000.
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2 Then the co-operative purchasing item, which
3 included consumers co-operative retail stores,
4 amounted to \$42 million, and the business of co-
5 operative retail stores amounted to \$19 million,
6 which is somewhat less than half of the \$42 million.

7 PROFESSOR BARBER: Yes.

8 MR. STEWART: If you go back to page 32
9 of your brief, it would rather appear that the
10 figures which have been used are 1942 figures
11 rather than 1941.

12 PROFESSOR BARBER: Yes.

13 MR. STEWART: And the figure of \$42
14 million, which you mentioned to me, is there; and
15 the figure for total retail sales on page 32 is
16 \$3,619, whereas in the appendix it is \$3,440. I
17 cannot explain that difference.

18 However, back on page 4 of the appendix
19 I see this, following the figures to which I have
20 just referred:

21 "The common ground, which approximates
22 \$20 million, equals nearly half the
23 co-operative purchasing business but
24 less than one per cent of the Canadian
25 retailing total. It follows, therefore,
26 that there need be very little cor-
27 relation between co-operative purchasing
28 and retail trade".

29 What I am drawing your attention to is
30 that the McDougall Commission, or its staff, divided
the figure for merchandising sales between the
business of co-operative retail stores and other



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2 purchases by the co-operative movement, and it
3 appears there that the sales through retail stores
4 were only about half of the total.

5 What I would like to put to you is that
6 this may very well be the case with regard to the
7 figures on page 12.

8 PROFESSOR BARBER: I suggest that the
9 figures on page 12, purchasing, is a designation
10 used -- obviously it has come from the Canadian
11 Department of Agriculture, but this is a designation
12 to include all merchandising activities, and the
13 co-operative retail designation used by the Dominion
14 Bureau of Statistics also includes total merchandising
15 activity.

16 I think that for the purposes of the
17 analysis that I did I used a consistent series
18 of co-operative retail as produced by the Dominion
19 Bureau of Statistics, so that the analysis is
20 based on the consistent series. So changes from
21 year to year are based on a consistent starting
22 point, in a consistent year-to-year use of the
23 same figure.

24 MR. STEWART: Is it not the fact that
25 the figures in the "Purchasing" column on page 12
26 are exactly the same as the figures on page 32
27 for co-op retail?

28 PROFESSOR BARBER: Yes, they are; and
29 since Dr. Fowke did the work for the McDougall
30 Commission in 1945, some of the definitions of
these things have changed, and I think maybe
actual practice may have changed in the case of
differentiating between purchasing co-operatives



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2 and consumer co-operatives.

3 If anything, the purchasing co-operatives,
4 in my experience, have been absorbed by the
5 consumer co-operative movement, or at least they
6 have melded.

7 MR. STEWART: I put this to you, that
8 on page 32 we have every year covered from 1940
9 to 1961?

10 PROFESSOR BARBER: Yes.

11 MR. STEWART: The figure of \$42 million
12 in 1942 is used in Appendix B on page 4, and from
13 that page it appears that only half that figure
14 relates to sales through co-operative retail stores?

15 PROFESSOR BARBER: But the point is,
16 how is the purchasing handled? That is, if half
17 of it went through retail stores, how is the other
18 half handled?

19 THE CHAIRMAN: What is a consumer co-op
20 which is not a retail store? It must be something
21 else of which I have lost track?

22 MR. STEWART: I take it that it must
23 relate to the purchases of sales and what might
24 be called -- I am not sure what the proper ex-
25 pression is -- producers' goods; that is, the
26 equipment and supplies used by primary producers
27 in their productive operations.

28 PROFESSOR BARBER: Not necessarily,
29 although you are probably right in suggesting
30 that this may be the majority of cases. But I
think it refers to pool buying groups of one kind
or another which may or may not be established



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2 for a pool purchase of producer goods. They pool
3 purchase for apples, coal and all kinds of things.
4 There was a time when the difference between pool
5 purchasing groups and consumer co-ops was more
6 material than it now is. That may be the explanation,
7 but I am not certain about it.

8 THE CHAIRMAN: Mr. Stewart, we will
9 break whenever you think it is a good time.

10 MR. STEWART: Let me suggest, before
11 we break, that this might include, I suppose, such
12 items as seed and fertilizer, farm equipment, part
13 of petroleum purchases, and part of hardware pur-
14 chases.

15 PROFESSOR BARBER: And binder twine.

16 MR. STEWART: The point I am coming
17 to is simply this: If it should be the case that
18 one-half of this \$388 million which you show on
19 page 32 and also on page 10 for 1961 as consumer
20 co-operative -- rather on page 12, where it is
21 described as "Purchasing" -- if one-half of that
22 amount does not relate to sales through co-operative
23 retail stores, then the proportion of the retail
24 trade of Canada which was done through co-operative
25 retail stores in 1961 would not be 2.35 per cent,
26 but would be possibly half that amount.

27 PROFESSOR BARBER: I have not seen the
28 submission of Federated Co-operative Limited, but
29 I was at a meeting they held last summer in
30 Saskatoon where they explored this whole question.
I was there as an invited guest.

They used the figure, I recall, of 2. some



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2 per cent, and I believe made a strong point of the
3 fact that this percentage had not changed since
4 1951; that it was 2.1 per cent then and it is 2.3
5 per cent now. I think those were the figures they
6 used.

7 So by their own admission they are doing
8 2.3 per cent of the retail business of the Dominion
9 of Canada, and I am not sure that it is material
10 whether it goes through outlets "X" or goes through
11 outlet "Y". Certainly as a retailer it is not
12 material to me how it gets to the public.

13 MR. STEWART: But as a retailer are you
14 not concerned about the competition between the
15 retail outlets of their members and the retail
16 outlets of the co-operatives?

17 PROFESSOR BARBER: As a retailer I am
18 concerned with the competition with anyone who
19 sells goods that I sell, and as a representative
20 of the Retail Merchants Association, presumably
21 a group which encompasses all classes of goods in
22 Canada, I am concerned about the competition from
23 any other organization that sells any class of goods.

24 MR. LESSER: Mr. Stewart, might I offer
25 a comment?

26 MR. STEWART: Please.

27 MR. LESSER: We have been speaking about
28 the co-operative business in relation to the total
29 business that is done in the Dominion of Canada, but
30 I think perhaps one fact that may have been lost sight
of in the citing of the statistics is the fact that
co-operatives are not in many types of business. For
example, they are not in the automobile business,



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2 they are not in the jewellery business, they are
3 not in the boot business; and if you were to take
4 the number of types of businesses that they do not
5 participate in, I am sure that would represent a
6 fairly significant percentage of the total retail
7 trade of the country.

8 If you eliminate these categories, it
9 is obvious that the concentration becomes heavier
10 in the categories that they are in. So that
11 sometimes a percentage figure does not really
12 indicate the activity in any particular sphere.
13 Is there a point there?

14 MR. STEWART: I think there is a point
15 there, and I think the point is quite valid.

16 PROFESSOR BARBER: I think at some point
17 in the brief I quoted Professor McIvor on this,
18 that when aggregated totals only are considered,
19 the very strong differential regional and local
20 impact is lost sight of.

21 MR. STEWART: Yes.

22 PROFESSOR BARBER: I think this is
23 important from our point of view, from a retailer's
24 point of view.

25 THE CHAIRMAN: We will stand over for
26 ten minutes.

27 --- Short recess.
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1 THE CHAIRMAN: Mr. Stewart, will you proceed.

2 PROF. BARBER: Pardon me, before we resume,
3 during the break I had an opportunity to talk to Mr.
4 Lamonte of the Western Canadian grain trade, and he
5 informed me, in relation to the sheet which you had out
6 earlier, that the Manitoba Pool, the Saskatchewan Wheat
7 Pool, the Alberta Wheat Pool and United Grain Growers
8 paid in 1962 approximately \$1.5 million in income tax,
9 which would be \$1.5 million of this \$2.1 million that
10 you have here.

11 THE CHAIRMAN: Three-quarters of the total.

12 PROF. BARBER: And that federated co-operatives
13 and the Federated Co-op of Quebec, along with two or
14 three of the other large co-operatives, we might
15 assume \$500,000.00, leaving a balance of \$100,000.00
16 paid by \$2,484.00 minus the pools, or approximately
17 \$41.00 apiece.

18 Also, someone gave me the figure, but there
19 are approximately 10,000 co-operative outlets. So
20 that if the 10,000 figure is closer than the 2,484
21 figure, we have a relatively small amount paid by
22 each individual co-op; it is next to nothing, negligible.

23 MR. STEWART: This would seem to indicate that
24 they get along with a remarkably small amount of
25 capital employed.

26 PROF. BARBER: Yes. Or that it is valued
27 at the 1932 level.

28 MR. STEWART: Well, I am glad to have this
29 information about the larger companies, but these
30 figures, both as to numbers and as to profits and taxes,



1 are, of course, simply derived from the 1962 taxation
2 statistics. Therefore it is difficult to say what
3 conclusions one should draw from the type of statement
4 that you have just made.

5 PROF. BARBER: The figures I got from Mr.
6 Lamonte, from the figures which they had arrived at for
7 the purposes of his previous submission. Where they
8 got them I don't know.

9 COMMISSIONER GRANT: The conclusion there, Mr.
10 Stewart, is that the grain pool co-operatives have a
11 much higher figure of capital employed in their respective
12 debentures than the consumer co-ops.

13 MR. STEWART: That may be, Mr. Grant. It would
14 appear to be the case that for one reason or another
15 they have paid tax on substantial amounts.

16 THE CHAIRMAN: I think it has to do with
17 their reserves too.

18 MR. STEWART: That may well be.

19 THE CHAIRMAN: And I was quite aware that most
20 of the tax came from that source.

21 MR. STEWART: Now, gentlemen, a good deal of
22 your submission relates to the rate of growth of
23 consumer co-operatives and you attempt to establish in
24 your submission that that rate of growth exceeds the
25 rate which applies to the retail trade as a whole.
26 Looking again at page 32, the righthand column of that
27 page, we find that in 1940, which is the first year
28 covered, the volume of retail sales of the co-operatives
29 was \$21 million. This is a very small base to begin
30 with. You are nodding your head, Professor Barber.



1 PROF. BARBER: Yes. It is a very small base.

2 MR. STEWART: In 1942, which is the year that
3 Appendix B appears to deal with, the amount was \$42
4 million, which appears, on the face of it, to be slightly
5 more than 1 per cent of the total retail sales of the
6 country. But in respect of that year the McDougall
7 Commission apparently concluded that the appropriate
8 figure for retail co-operative sales was about half this,
9 with the result that co-operative retail sales amounted
10 to less than 1 per cent of the retail trade of the
11 country as a whole.

12 PROF. BARBER: I am not convinced of the
13 efficacy of accepting the halving of the so-called
14 purchasing figure in this case.

15 MR. STEWART: Then we have the present position,
16 which amounts to 2.35 per cent of total retail trade on
17 the basis of the \$388 million figure, and a smaller
18 portion in the event that there is some merit in
19 discounting the \$388 million.

20 PROF. BARBER: Yes.

21 MR. STEWART: Then at page 55 of your
22 submission you make the point that -- when I say that
23 you make the point, it is suggested by Mr. Parr, who is
24 referred to on that page, that the rate of growth has
25 not been a constant rate, nor has it been a consistent
26 rate.

27 PROF. BARBER: Right.

28 MR. STEWART: Well now, Mr. Chairman, I think
29 it would perhaps be logical at this point to deal with
30 the very interesting study which appears at pages 26



1 to 63 of this submission. It may be that you would
2 prefer to ask the questions dealing with that study.

3 THE CHAIRMAN: I do not mind, Mr. Stewart. I
4 should like Professor Barber to take us through it as
5 well as he can. I notice that a very different result
6 is produced with the various base years. The rates of
7 growth vary considerably.

8 PROF. BARBER: Yes.

9 THE CHAIRMAN: Perhaps it might be as well to
10 look at Canada as a whole, with the various base years.
11 Chart No. 1 deals with the rate of growth, and as I
12 see it the CCS, which is the Consumer Co-operative Sales,
13 grew in exact proportion to the GNP for the period
14 from 1948, I think it is, to 1960.

15 PROF. BARBER: And fell. There was some
16 slight lag in 1955, and the gnp fell in 1954 or 1953.
17 So you can see that the relationship there does exist.

18 THE CHAIRMAN: Why should the growth have
19 been so immense in these consumer co-operatives between
20 1940 and 1948, where they were growing much faster than
21 the other economic indicators, and then they levelled
22 off the gnp from 1948 on?

23 PROF. BARBER: One assumption I have made, and
24 I feel that it stands the test, is that during the
25 period 1940 to 1950 we have the wartime taxation age,
26 of excess exorbitant profits by private institutions.
27 This influenced co-operatives to invest large amounts
28 of money during the period relative to their competitors,
29 and to my way of thinking that accounts for a portion
30 of this.



1 With regard to the levelling off since then,
2 I am not sure, in my own mind, why the rate of growth
3 is somewhat slower in the decade 1950 to 1960 than it
4 was before. Because if the conclusion I reached about
5 1940 to 1950 is valid, a similar conclusion from 1950
6 to 1960 should be valid also. I am not sure why. All
7 I know is that the rate of growth from 1950 to 1960 is
8 still greater than the rate of growth of retailers
9 from 1950 to 1960.

10 THE CHAIRMAN: Then I am curious why retail
11 sales would grow less than disposable income or less
12 than the GNP. Is there any economical explanation
13 for that? That seems to be the case from about 1955
14 forward. Am I not right?

15 PROF. BARBER: Yes, approximately. Yes, I
16 think probably that is a reasonable conclusion. Chart
17 A-1, which is the companion to chart 1, appears
18 following page 54 and indicates that these are the
19 percentages of the base year.

20 THE CHAIRMAN: That is page 49?

21 PROF. BARBER: Yes, or the next page, chart
22 A-2, the base year 1956. That base 1956, retail sales
23 and gnp, personal disposable income, seem to be more
24 closely related.

25 THE CHAIRMAN: From 1956 on, that is?

26 PROF. BARBER: Using the 1956 base year, yes.
27 Well, even prior to 1956 the relationship was not bad.
28 If you look at the regression charts where these lines
29 have been straightened out -- that is all the
30 regression analysis does, if you look at page 59 -- you



1 even out the fluctuations by finding the best straight
2 line.

3 THE CHAIRMAN: Do you put a dot at the
4 beginning of the chart and a dot at the end and draw a
5 straight line between the dots?

6 PROF. BARBER: You put all the dots at the
7 beginning at the end and draw a straight line which
8 best fits all the dots.

9 THE CHAIRMAN: Not just the opening one and
10 the closing one?

11 PROF. BARBER: No, not just the opening and
12 closing ones.

13 THE CHAIRMAN: That seems to me to be too
14 simple.

15 PROF. BARBER: Basically that is what happens,
16 but the computer takes all this information and tests
17 a number of lines and finds that line which best fits
18 all the data. The relationship between the gnp and
19 personal disposable income is very close with the
20 variations in various years, as indicated in chart 1
21 and in chart 1-A, or A-2.

22 I looked for another relationship, which I
23 did not include because I could not find a correlation
24 which suited me, between net farm income and consumer
25 co-op sales, and I fiddled around with it for a while.
26 Without making a very serious study of it there seemed
27 to be some relationship between net farm income and
28 consumer co-op sales, and strangely enough it seems to
29 be when income is buoyant the co-operatives do
30 relatively less well than when income is not so buoyant.



1 But I cannot be firm in this conclusion. It is just
2 something which the evidence seemed to indicate.

3 THE CHAIRMAN: Does that mean that all the
4 farmers go to court and do their buying there? It is a
5 very curious result.

6 PROF. BARBER: This may have some influence on
7 it, although it may be that they become less conscious
8 about it. I suspect that in an economic sense they
9 become less concerned about minute differences in
10 offerings, and less careful about minute differences in
11 offerings, and instead of driving three miles to the
12 co-operative, they might take the first outlet which
13 comes along. But this is not a very good relationship;
14 it is difficult to test.

15 THE CHAIRMAN: I have not made a careful
16 contrast of the various regions here. What is notable
17 to you?

18 PROF. BARBER: Notable is the situation for
19 Saskatchewan, where in absolute percentage terms the
20 percentage of the retail market enjoyed by consumer
21 co-operatives is greater than the percentage of the
22 retail market enjoyed by co-operatives in other areas.
23 The rate of growth has been more consistent for
24 Saskatchewan than it has -- or generally more
25 consistent for Saskatchewan than it has for other
26 areas.

27 THE CHAIRMAN: You made reference to the
28 Saskatchewan chart.

29 PROF. BARBER: That is G-2, or the corresponding
30 semi-logarithmic plot would be chart 7.



1 THE CHAIRMAN: What page?

2 PROF. BARBER: Page 46, and the straight line
3 chart would be chart 13, page 60. Those three charts
4 indicate the Saskatchewan situation.

5 THE CHAIRMAN: That is pages 46, 52 and 60?

6 PROF. BARBER: Yes. Page 46 following page
7 54 and page 60; chart G-2 in the case of Saskatchewan.
8 You will notice that chart G-2 shows considerable
9 fluctuation in personal disposable income for
10 Saskatchewan. That does not show up in the other areas.
11 The explanation, of course, is that farm income is
12 characteristically like this. But in spite of this
13 fluctuation in personal disposable income, you see the
14 consumer co-op sales perform rather strongly, consistently
15 up except for the period 1953 to 1955.

16 THE CHAIRMAN: Retail sales do not seem to be
17 very sensitive to fluctuations in disposable income.

18 PROF. BARBER: No, they do not. Presumably
19 consumers do not adjust their purchasers very much on a
20 year to year basis, regardless of the fluctuation in
21 income. Saskatchewan is notoriously an agricultural
22 country, and this accounts for it.

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1 PROF. BARBER: Probably the analysis is a
2 more detailed presentation than is necessary to indicate
3 the point. This occurred for two reasons. First, Mr.
4 Parr was very helpful. He was preparing a Master's
5 thesis on this subject and assisted a great deal. I
6 felt it was reasonable to include it. I am not sure
7 that all this analysis is necessary to demonstrate the
8 growth, but I feel the existence of this analysis
9 demonstrates, to my satisfaction at least, that any
10 suggestion that co-operatives did not grow at a more
11 rapid rate than retail generally is not a valid
12 suggestion.

13 THE CHAIRMAN: Professor, I have one other
14 question on this. The growth of co-operatives seems to
15 be at a much slower rate than everything else. I think
16 it is true of most provinces. It seemed to be true
17 of British Columbia and Ontario during the years 1950
18 to 1955.

19 PROF. BARBER: Yes.

20 THE CHAIRMAN: Is there an explanation for
21 that?

22 PROF. BARBER: I could not find one. I just
23 did not know. Although the only thing I could think of
24 was that from 1950 to 1955 was a very buoyant
25 economic period and people were not so selective.

26 THE CHAIRMAN: Your charts indicated an
27 extreme drag during that period.

28 PROF. BARBER: Which chart?

29 THE CHAIRMAN: Chart D-3, which is for
30 Ontario. British Columbia shows very much the same



1 thing on the 1950 base, F-3.

2 PROF. BARBER: If you look at chart D-3B you
3 will see that the gross national product is the same in
4 each case so it does not really matter, but if you look
5 at chart A-2, from 1950 to 1956, with the exception of
6 1954, the gross national product went from 65 to over
7 90, based on 1956. So it went, from 1950 to 1956, from
8 65 to 100, a 40 per cent increase in that six year
9 period.

10 THE CHAIRMAN: You are indicating that the
11 prosperity of the country works against the growth of
12 co-operatives?

13 PROF. BARBER: It appears to. Again, I have
14 not tested this to the point of personal satisfaction,
15 but it appears to be this way on the surface.

16 THE CHAIRMAN: I think this is very helpful.
17 It may be more detail than I can take in at one reading,
18 but I think I understand what you are trying to tell us
19 here.

20 Is there anything you would care to add on
21 the growth?

22 PROF. BARBER: No, except to say that my
23 feeling is that the growth assumption is tested beyond
24 reasonable doubt.

25 MR. STEWART: Gentlemen, starting at page 64
26 you deal with possible reasons for the growth of
27 co-operatives and you deal first of all with the
28 ideological side, the concern about exploitation, the
29 desire to be an owner of the operation. This
30 ideological basis for the co-operative movement I take



1 it would remain, to the extent that it still exists,
2 notwithstanding any changes in tax laws related to
3 co-operatives.

4 PROF. BARBER: Right.

5 MR. STEWART: You also bring up the fact that
6 in this country or on this continent the movement
7 began at any rate as a rural agricultural movement but
8 you point out at page 67 that it has now penetrated into
9 urban areas, at least in some parts of the country.
10 I take it that the movement into the urban areas would
11 in itself explain part of the growth of the sales of
12 the consumer co-operatives.

13 PROF. BARBER: I suspect -- if you take again
14 the region with which I am most familiar, Saskatchewan,
15 and if you take the population trends in Saskatchewan --
16 a prediction that co-operatives would move into the
17 cities and grow rapidly was a valid prediction because
18 this is precisely what has happened to the rural
19 population. They have moved from the rural to the
20 urban areas, or out of the province completely, so I
21 think this was a natural movement along with the
22 demographic patterns in Saskatchewan.

23 MR. STEWART: In other words, as people move
24 from rural areas into urban areas it is not unnatural
25 for them to bring with them some of their customs and
26 methods of trading.

27 PROF. BARBER: This is quite true.

28 MR. STEWART: Then you also mention in this
29 section of your submission that in recent years the
30 calibre of the management of co-operatives has probably



1 improved and you mentioned in your brief -- and you
2 have already mentioned it this morning -- that we may
3 find now at different points in the movement what I
4 think you call the hierarchy of people who may be
5 anxious to aggrandize the movement with the result that,
6 as you have suggested, you may have the initiative in
7 connection with the formation of new co-operatives not
8 coming from the small man, from the small community,
9 but from outside, from the organizations as a whole.

10 PROF. BARBER: From the hierarchy, yes.

11 MR. STEWART: Have you any reason to think,
12 Professor Barber, that this hierarchy is not just as
13 interested in the ideological aspects of co-operatives
14 as the ordinary member?

15 PROF. BARBER: First of all, I am not sure
16 what the ordinary member is. I think probably we have
17 to differentiate between the ordinary member who is
18 an ordinary member because he believes in cooperation
19 as a method of doing business and who expects to
20 receive the benefits incidental to this belief, and
21 the individual who does business with the co-operative
22 in expectation of the benefit of doing business with
23 a co-operative with no ideological conditions entering
24 into it at all -- the shrewd trader. I do not know
25 what proportion of any co-operative may be shrewd
26 traders and what proportion may be cooperators; I think
27 it is very difficult to say, very difficult to sort
28 out, but I think it is important.

29 The members of the organization, the hierarchy,
30 the bureaucracy again, have to be separated in terms of



1 those who are purely paid employees who may or may not
2 have a great deal of knowledge about or interest in
3 the co-operative ideological principles and those people
4 who are strong ideological cooperators. It is my
5 feeling that the movement itself and the large
6 institutions within the movements, like Federated --
7 and I do not know so much about, say, the wheat pools
8 -- that this is a problem that within Federated causes
9 a great deal of consternation, the knowledge that on
10 the one hand the organization is becoming extremely
11 large and therefore very divorced from the membership
12 at large, and that the organization is based on a
13 close relationship with the membership. I am not sure
14 that they have resolved this problem nor that it is a
15 problem easily resolved. It is like the problem of
16 a complex democracy, the United States or Canada, where
17 democracy is based on intimate knowledge of the people
18 and beliefs of the people, and the expression of this
19 knowledge and this belief. When the people
20 responsible for providing services to the rank and file
21 are removed from the rank and file, the system does
22 not work as well as it did before in terms of the
23 ideological objectives.

24 MR. STEWART: Then you have some scepticism
25 about the average member of the co-operative, you are
26 skeptic that the average member of the co-operative
27 movement at the present time is not very much
28 affected by the fact that if he joins a co-operative
29 he becomes more than simply a customer of the place he
30 deals with, he is not only a customer but he is an



1 owner of his co-operative?

2 PROF. BARBER: I think that he is not too
3 impressed with the idea of being an owner in the
4 Rochdale sense. An owner in the modern corporate
5 sense may be, I do not know, but in the Rochdale sense
6 I would say most members are not. This is a personal
7 view; I have never tested it. However, I know a lot of
8 people who belong to the co-operative -- I know them
9 well.

10 MR. STEWART: There has been a good deal of
11 evidence given to this Commission to the effect that
12 the co-operatives make most remarkable efforts to
13 ensure that their members are kept informed as to what
14 is going on within the co-operative and that they are
15 given every opportunity of having a voice in committees
16 and elsewhere so as to permit them to take a part, and
17 a reasonably active part, in the management of the
18 whole operation. This applies not just to smaller
19 ones but it appears to apply to the larger ones such
20 as the wheat pools.

21 I noticed that at one point in your brief you
22 suggest that in one case -- I have forgotten which it
23 is; I think perhaps it was one of the Saskatchewan
24 retailers -- the amount of interest on the part of the
25 members in the fortunes of the co-operative as such
26 was somewhat limited. What have you to say, for
27 example, about the organization of the wheat pools,
28 just to take an example, from the point of view of
29 keeping the members informed, interested and active
30 in the affairs of the co-operative?



1 PROF. BARBER: I think they make a determined
2 effort, but I am not sure whether the determined effort
3 that is made is purely altruistic or whether in fact it
4 is not commercial. I do not know how you can sort
5 this out... If I were at the top of an organization
6 like the wheat pool I think I would make a similar
7 type of effort to keep my customers informed about my
8 business -- that is, that part of my business which
9 materially affects them. In the case of the Wheat Pool
10 this may be more than in the case of some other
11 different kind of organization, but this is not an
12 uncommon method of maintaining customer loyalty -- that
13 is continued information and advertising. The
14 difference again, referring to Mr. Lesser's remarks,
15 between the kind of advertising at the Saskatoon
16 Co-op Centre carried on as indicated in our appendix,
17 and the type that he might carry^{on}/is rather negligible.
18 The Saskatoon Co-op Association would call this
19 "member education", David Lesser calls it "advertising".

20 MR. STEWART: There appears to be this
21 education as to what is going on within the particular
22 co-operative. There is also more than that, as I
23 understand it. There is an attempt to ensure that the
24 individual member is represented at least indirectly
25 in the decision-making process. All of them may not
26 go to annual meetings, but in many cases at any rate
27 they appear to elect directly delegates to go to the
28 annual meeting and they appear to be led to feel that
29 they have a real part in the government of the
30 enterprise.



1 PROF. BARBER: There is a case in Saskatchewan
2 right now, and I am not too familiar with it because
3 of course I have been away, where it seems to me there
4 was some suggestion about moving an elevator or
5 closing an elevator in some section of the country where,
6 presumably, the elevator is not as profitable as it
7 might be -- profitable in any sense -- and there was one
8 farmer who was a member of the wheat pool, to the best
9 of my knowledge -- and this is my understanding of the
10 case; it may not be factually correct but this is as I
11 understand it -- and he is complaining vociferously
12 in the press and publicly because his wheat pool is
13 moving the elevator away and he is not going to have
14 any service. This farmer is saying, "I want my service
15 here, now." I understand he says, "Look, the wheat
16 pool is complaining about rail line abandonment but
17 they are abandoning me".

18 Obviously, in an organization as large and
19 complex as the wheat pool this kind of thing is going
20 to happen and, as in other institutions in our society,
21 when a small man comes into conflict with a big
22 institution the usual outcome is that the big
23 institution remains pretty much unruffled. And the
24 wheat pool or the Federated Co-operatives or other
25 organizations of this magnitude suffer to a considerable
26 degree, maybe not as much as other institutions in our
27 society but certainly to a considerable degree, from the
28 same kind of bureaucratic inflexibility, the same kind
29 of difficulty, from democratic government that other
30 large scale institutions suffer from. I think they



1 are not much different in this respect.

2 MR. STEWART: Let me contrast what the wheat
3 pools apparently do with what a large joint stock
4 company may do as far as education is concerned.

5 A large joint stock company with a substantial
6 number of shareholders may send its shareholders
7 quarterly reports, and of course it will send them an
8 annual report.

9 Are these co-operatives not doing considerably
10 more than that, the large co-operatives? Possibly they
11 are because, as you suggest, they are dealing not
12 simply with suppliers of capital but they are dealing
13 with customers they want to keep as such.

14 PROF. BARBER: Specifically in the case of
15 Federated Co-operatives, I do not know whether the rank
16 and file member of, say, some small co-operative
17 receives a statement from Federated. He probably does
18 not. He probably could get one on request, but he does
19 not receive one because the individual member of a
20 local co-operative is removed from Federated Co-operatives,
21 which in fact is in the commanding position economically
22 in terms of this particular co-operative hierarchy.

23 MR. STEWART: The average individual is not
24 a member of Federated at all?

25 PROF. BARBER: No, this is the point,
26 Federated has a considerable influence or can have a
27 considerable influence on the affairs of his local
28 co-operative, and frequently does.

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1 They send out all sorts of representatives to assist in
2 the operation of the co-op. Their advice is not always
3 accepted. It does not have to be accepted, but the
4 influence is nevertheless there. When it comes to
5 the personal feeling of a member for Federated Co-operatives,
6 the commanding institution in the merchandising hierarchy,
7 I cannot see that it is there except that they can stand
8 back and take pride in ownership, much as I can stand
9 back and take pride in ownership of the Peace Tower
10 here.

11 MR. STEWART: But this does not seem to me to
12 be a real parallel, with respect. Let us suppose that
13 Federated is jointly owned by 500 co-operatives. The
14 individual in Red Deer, let us say, who is a member of
15 one of those 500 co-operatives is very actively
16 interested in the affairs, or may be very actively
17 interested in the affairs, of his own co-operative. It
18 does not necessarily follow that he would have any
19 tremendous interest in the affairs of Federated.

20 Let me give you a parallel from the case of a
21 joint stock company. If I am a shareholder of a
22 Canadian company which carries on substantial operations
23 in Canada, I may have a considerable interest in the
24 fortunes of that company in Canada; but if it happens
25 to be a member of a world-wide group of companies, I
26 may have some interest in the affairs of, say, the
27 German company in the group and I may be intrigued by
28 the fact that my company is a member of that particular
29 group; but I do not take the same interest in the German
30 company as I take in the Canadian company.



1 PROF. BARBER: You may not take the same
2 interest in the Germany company as you take in the
3 Canadian company, but if the German company is in a
4 controlling position, or is in a very influential
5 position in the affairs of the Canadian company -- that
6 is, can influence them directly and considerably --
7 then wouldn't your interest be increased in that
8 German company?

9 MR. STEWART: But the case of Federated is
10 somewhat different, because in theory, at any rate,
11 Federated is controlled by these co-operatives. It does
12 not control them.

13 PROF. BARBER: In theory. In practice, I think
14 the relationship -- certainly the commercial power is with
15 Federated rather than with the individual co-operative,
16 except in the case of, possibly, a handful of large
17 urban co-operatives with independent power.

18 MR. STEWART: Let me put this to you. You
19 appear to conclude in your submission that the tax
20 factor is the most important factor in explaining the
21 growth of consumer co-operatives. I think that perhaps
22 you would agree that it is really extremely difficult
23 to tell just how important any particular factor is, in
24 this regard?

25 PROF. BARBER: Yes.

26 MR. STEWART: One other factor, I take it,
27 may be that the average member of the co-operative is
28 attracted by the fact that if he joins the co-operative
29 he has this dual status of patron and owner?

30 PROF. BARBER: My belief is that most of the



1 people that are attracted, are attracted because of the
2 commercial advantage that accrues to them; not because
3 of the ownership interest which is incidental to the
4 membership.

5 I feel that most of the members of the
6 Saskatoon Co-operative, or the Sherwood Co-operative in
7 Regina are shrewd traders, not idealogical individuals.

8 THE CHAIRMAN: Does the term "commercial
9 advantage" merely mean "patronage"? Is that what you
10 are thinking of?

11 PROF. BARBER: It means a lower price for the
12 commodity ---

13 THE CHAIRMAN: Net?

14 PROF. BARBER: A lower net price, after all
15 considerations, than can be achieved shopping elsewhere.

16 MR. STEWART: But may he not be attracted by
17 the fact that through becoming an owner he is going to
18 acquire a commercial advantage?

19 PROF. BARBER: It is difficult, I suppose, to
20 speculate on the motives of other people. But I will
21 even put it in cruder language. It is my feeling that
22 it is the patronage dividend as such that attracts most
23 of the members of the co-operative, and the feeling
24 that this patronage refund comes for no effort on their
25 part and that it is the accumulation, unseen, of
26 insignificant amounts of rebate on individual purchases
27 indicated in a lump at the end of some long period of
28 time. This is a considerable attraction.

29 If the patronage refund were eliminated --
30 that is, the pricing-out doctrine -- and if the co-



1 operative priced out instead of paying a patronage
2 refund, the difference in price that they could achieve
3 as a result of this practice would be insignificant to
4 each individual patron, and they would lose patronage.
5 This is, again, by their own admission. I heard Mr.
6 Fowler say this in a hearing of this type, that they
7 would have to have a patronage refund and this was the
8 only way they could keep their members. He said they
9 would lose them if they did not get it.

10 MR. STEWART: If they are attracted by the
11 fact that they expect to receive, or are led to believe
12 that they will receive, a patronage refund, they are
13 thinking of the patronage dividend as such, and not of
14 any taxation aspects of the co-operative picture?

15 PROF. BARBER: The taxation aspect is, as you
16 realize, a very cloudy one, and I am not sure that the
17 average member in the co-operative understands how the
18 taxation advantage results in a greater accrual to him,
19 with all due respect to members of co-operatives,
20 because it is a very complex question.

21 MR. LESSER: Mr. Stewart, would not the appeal
22 of the patronage dividend be very similar to the appeal
23 of trading stamps that the ordinary chain or similar
24 type of operation offers to its customers?

25 It seems to me that there is a similarity
26 there, and I think that the fact that the co-ops
27 opposed trading stamps so strongly is indicative of
28 the fact that they themselves recognized that some
29 appeal of this nature would be detrimental to their
30 type of operation.



1 MR. STEWART: This is a large subject, Mr.
2 Lesser, but I should have thought there was a fundamental
3 distinction between a patronage dividend and a trading
4 stamp.

5 PROF. BARBER: The British Board of Trade in
6 1933 did not think so. They produced a report on trading
7 stamps in which they compared the trading stamp with the
8 co-op "divi" in Britain. That was, I think, in 1933 or
9 1935; somewhere in the 1930's. The British Board of
10 Trade did this study, and this is what they said. So
11 fundamentally I am not sure that there is a very great
12 distinction.

13 MR. STEWART: I do not think I will take your
14 time to debate that at the moment. Could I ask you to
15 turn to page 75. In the last paragraph on that page
16 you deal with some of the points we have just been
17 discussing.

18 I found some difficulty in following the last
19 sentence, and I wonder if you would indicate just
20 exactly what you mean by that. I refer to the sentence
21 beginning: "In effect, it would seem".

22 PROF. BARBER: I think the sentence has to go
23 with the previous sentence, and I will just read both.
24 In fact, I will read the whole paragraph:

25 "Over the long run any superior
26 operating advantage available to
27 co-operatives would be equally
28 available to 'private' retailers.
29 Consumer preference for the 'superiority
30 of the co-operative way'" --



1 This is the thing that is extolled by co-operatives in
2 the advertising:

3 "-- which would accrue to the
4 advantage of co-operatives may
5 or may not be a contributing
6 factor to superior growth
7 performance".

8 I do not know that there is any way to sort
9 out the contribution of the so-called superiority of the
10 co-operative way to the growth of co-operatives:

11 "If consumer preference for
12 the co-op form of ownership is
13 sufficiently strong to account
14 for superior performance it is
15 quite possible that the 'tax
16 shelter' enjoyed by co-operatives
17 is influential in enhancing this
18 preference".

19 In other words, without the tax shelter the
20 advantage the co-operative could offer to the individual
21 patron over and above the advantage offered by competing
22 private retailers would be somewhat less than it now
23 is. Then we say:

24 "The tax advantages inherent
25 in the co-operative form of
26 ownership under present regulations
27 allow the co-operative to offer a
28 much 'better deal' than can 'private'
29 competitors. In effect, it would
30 seem that preferential tax treatment



1 is more responsible for the 'at
2 cost' posture of co-operatives
3 than are significant returns of
4 profit to the members".

5 In other words, if the so-called surplus of
6 the co-operatives were reduced by 50 per cent, as it
7 would be in the case of Federated and in the case of the
8 Sherwood co-operative in Regina, or the Saskatoon
9 Co-operative, it would be a considerably smaller
10 patronage refund that could be granted, and therefore
11 there would be considerably less advantage to each
12 consumer to shop at the co-op.

13 Therefore, because the advantage is lower,
14 the offerings of competitors would be more likely to
15 have an impact. In the case of Saskatoon, for example,
16 there is one co-op in Saskatoon and it is downtown.
17 My home in Saskatoon is four miles from the co-operative,
18 I guess. My home is three blocks from a Safeway. If
19 I can save a lot by going to the co-operative, it may
20 induce me to go further than I would normally go to do
21 my daily shopping. If the saving is less, I will look
22 at the Safeway three blocks away and say it does not
23 pay me to drive downtown. As a rational, economic
24 man I will say this, and I will make my purchase
25 decision on the basis of this kind of analysis, even
26 if I do not understand that this is the kind of
27 analysis that I am going through.

28 MR. STEWART: When you refer to "at cost
29 posture", just exactly what do you mean?

30 PROF. BARBER: This is a phrase the co-operatives



1 use. They say "We provide at cost commodities. There
2 is no profit element", etc., etc.

3 MR. STEWART: In any event, it comes down
4 to this, that you say that if the tax advantage were
5 reduced, the amount of trade which the co-operatives
6 enjoy might also be reduced?

7 PROF. BARBER: Or they would attract a smaller
8 percentage of the increase in trade. I am not sure
9 that they would be abandoned holus bolus by the present
10 membership. I doubt this, because trading patterns
11 are habitual. But I do not think they would grow at
12 the same rate, or at the same differential rate.

13 MR. STEWART: I thought we had agreed somewhat
14 earlier that at least to the person imbued with the
15 co-operative spirit, the imposition of tax on co-
16 operatives might really have no effect upon his
17 patronage.

18 PROF. BARBER: Very little, I would suspect,
19 or none.

20 MR. STEWART: So that the people you think may
21 be lost as patrons, or who may never be gained as
22 patrons, are the ones who have not got this ideological
23 urge?

24 PROF. BARBER: That is right.

25 MR. STEWART: Could we go back for a moment
26 to page 17. On page 17 of your submission you say --
27 and I am looking at the first complete sentence on the
28 page -- the following:

29 "Obviously a major change
30 in legislation" --



1 By which you mean tax legislation:

2 " -- would require material
3 operational changes by co-operatives".

4 Then a couple of sentences further on you say:

5 "The co-operative intransigence
6 regarding the subject of tax
7 treatment of their funds results
8 from the reluctance of the movement
9 to entertain the possibility of
10 changes in present operational
11 methods and procedures".

12 Can you tell me just what you are getting at
13 there?

14 PROF. BARBER: I would like to refer you to
15 page 105, Mr. Stewart, to answer this question, where
16 I quote Mr. M.D. Zeddies, general counsel and director
17 of Finance of Midland Co-operatives, who says, in
18 effect, that it is about time the co-operative
19 movement found some other way of financing its capital
20 accretions rather than just the holus bolus re-investment
21 of patronage refunds.

22 This is what I am referring to when I say
23 "a major operational change". This has become the
24 established pattern of financing for co-operative
25 growth. If the taxation legislation is changed, as I
26 feel it should be changed, then some other pattern
27 for capital accretion will have to be found.

28 MR. STEWART: If we can go back to our
29 exhibit, Professor Barber, I think we found in our
30 hypothetical co-operative with a profit before tax of



\$7,000. and a tax of \$500.00.

1 500/00 that the amount available for patronage dividend
2 was about \$6,500.00 or the amount that might conceivably
3 be made available for patronage dividend would be a
4 maximum of \$6,500.00.

5 If in that hypothetical co-operative the tax
6 were increased from \$500.00 to \$1,100.00 -- which is the
7 figure that we assumed the corresponding retail merchant
8 was paying -- the amount available for patronage
9 dividend would be \$5,900.00. This difference of
10 \$600.00 does not strike me as being overwhelming.

11 Why do you say that it would be necessary, in
12 those circumstances, to change the operational methods
13 and procedures?

14 PROF. BARBER: Because we are not talking
15 only of co-operatives that are in this position; we are
16 talking about Federated Co-operatives. In the case of
17 the Saskatoon Co-operative, the magnitude of the sums
18 involved is in millions. The Federated Co-operative
19 can take \$1,500,000.00 and reinvest it. This
20 obviously is not a small amount of money with which to
21 deal.

22 This puts them in a very commanding position,
23 particularly when, as demonstrated by their own
24 records, the rate of return on this capital is somewhere
25 in the neighbourhood of 12 per cent, compounded,
26 annually.

27 As I showed, or attempted to show in the
28 comparison with the Federated Co-operative, the
29 accumulation and compounding of this money over a
30 period of years confers a fantastic benefit.



1 MR. STEWART: I conceded that in the larger
2 co-operatives a change in the tax legislation of the
3 sort you recommend would have a very considerable
4 effect; but in the case of the small retail co-operatives
5 is it really going to have a material effect on
6 operational methods and procedures?

7 PROF. BARBER: It is a difference in degree.

8 MR. STEWART: Sometimes differences in degree
9 become differences of kind.

10 PROF. BARBER: There may be a point where it
11 becomes a difference in kind, but I still believe that
12 a change in the legislation would require the
13 co-operative to seek some method of raising capital
14 other than the one which is now used most commonly,
15 which is the re-investment of tax free patronage
16 refunds. This is the most common pattern for growth.

17 MR. STEWART: I put it to you, again, that
18 a co-operative, if such exists, which is paying tax at
19 an effective rate of ten or 15 per cent is not going
20 to be in that category.

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1 PROF. BARBER: I do not see that it is a black
2 or white situation. I am sorry, I feel that if the
3 co-operative can reinvest \$500.00 more than the private
4 retailer, he can buy himself a new cash register or put
5 a new marquee in front of his store and in some way or
6 other make the store more attractive. It matters little
7 that it is only \$500.00 instead of \$5 million. It
8 allows him to operate in this manner when his competitor
9 is not allowed to operate in this manner.

10 MR. STEWART: In any event, on page 17, when
11 talking about changes in operational methods and
12 procedures, you were not thinking of the adoption by
13 the co-operative movement of pricing out?

14 PROF. BARBER: This is one device which they
15 have at their disposal in the matter of a change in
16 operating methods and procedures. I would not
17 recommend it to them if I were their adviser, because I
18 do not think it would be successful; but it is one
19 method which could be used. If taxation were applied
20 in the same way that it is applied to corporate
21 entities now, it would be an attractive alternative, I
22 think, if there were a desire to avoid tax. But I
23 do not think it would be successful.

24 MR. STEWART: Why do you think it would not be
25 successful?

26 PROF. BARBER: For the reason which I stated
27 earlier, that Mr. Fowler says that the patronage
28 dividend is necessary in order to retain the patronage,
29 to retain the loyalty of the member. I think that when
30 the operating margins of retail institutions are as low



1 as the evidence submitted yesterday, and the evidence
2 discussed this morning, would seem to indicate, this
3 minute differential at point of purchase is not
4 sufficient to induce people to go very far out of their
5 way to try and achieve it. Maybe a big ticket item,
6 yes, but a day to day purchase I do not think many
7 people would go very far to save one cent on a can
8 of peas.

9 COMMISSIONER PERRY: Are you a married man,
10 Professor Barber?

11 PROF. BARBER: Yes, and I have five children.

12 COMMISSIONER PERRY: I know my wife drives
13 twenty-five miles to save one cent.

14 PROF. BARBER: Then I might have the opinion
15 that she is not a rational consumer in this case!

16 COMMISSIONER PERRY: I thought of her as a
17 typical consumer.

18 PROF. BARBER: She might drive twenty-five
19 miles in one case in order to save one cent on a can of
20 peas, and then go down to the corner store and as a
21 result of one less rational purchase dissipate her
22 entire savings from her other excursion. I think that
23 is fairly standard.

24 COMMISSIONER GRANT: If we are to go into
25 this I think we should do it on an objective basis,
26 not a personal one!

27 PROF. BARBER: Evidence from studies done of
28 supermarket purchases seem to indicate that there are
29 fields or areas delineated from which given supermarkets
30 draw, and they tend not to draw from beyond these areas



1 despite the promotions they might run. These boundaries
2 are not totally inflexible, but they tend to be
3 reasonably rigid.

4 MR. STEWART: I am not sure that I follow
5 you on one point there. I want to suppose that we have
6 a retail co-operative, which at the present time is
7 subject to nominal taxation, and that these tax rolls
8 are changed so that if they carried on as heretofore it
9 would become subject to taxation which it regarded as
10 substantial. It decided that it would avoid that
11 taxation by pricing out. Would it not be achieved
12 through pricing out at prices which would render its
13 patrons at least as much benefit as they are obtaining
14 at the moment through patronage dividends?

15 PROF. BARBER: Yes, it should, except that
16 these benefits come in minute dribbles on a day to day
17 basis or week to week basis, and the apparent benefit
18 to consumers is much less. The psychological impact
19 of receiving a relatively small discount at point of
20 purchase is considerably less than the psychological
21 impact of receiving an accumulated dividend from a
22 whole year's patronage.

23 MR. STEWART: So you would consider the
24 psychological benefit from the patronage dividend in
25 large part arises from the fact that it comes in one
26 chunk?

27 PROF. BARBER: Yes. It is like a trading
28 stamp in this respect. I cannot help but draw the
29 parallel. The reason the trading stamps are
30 successful is not because they give the consumer a 1½



1 per cent discount but because they get something
2 material at the end of a period of time.

3 COMMISSIONER PERRY: Can you reach a point
4 in the next minute or two at which we could conclude?

5 MR. STEWART: Yes, Mr. Perry; I just want to
6 ask one question, if I may. I am sure that you are
7 familiar with Professor McIvor's series of articles
8 on the co-operatives in Canada.

9 PROF. BARBER: Yes.

10 MR. STEWART: He suggests that if co-operatives
11 were to adopt pricing out on a substantial scale, this
12 might have a disastrous effect on other retail
13 traders. What are your views about that?

14 PROF. BARBER: First, I think it is difficult
15 to generalize. Those co-operatives which are now
16 financially strong and managed in a sophisticated
17 fashion with all the latest devices probably could,
18 through pricing out, maintain a position and probably
19 be very tough competitors. Whether they would be any
20 tougher than they are now, I suspect not. Personally,
21 I think not because I think the psychological benefit
22 of the patronage refund is pretty high. But that is
23 a personal opinion which I cannot test.

24 For those co-operatives in a relatively
25 weak financial position without backing by other
26 elements of the co-operative movement like Federated
27 or credit unions, short of considerable financial
28 backing I think a knock-down-drag-them-out fight with
29 the retailers of Canada would result in some
30 co-operatives going and some retailers going. I am not



1 sure what the pattern would be after it was all over,
2 but I do not think it would be substantially changed.
3 From my own personal experience I do not think that
4 the co-operative which my father competes with could
5 do any better pricing out than it does now, and I suspect
6 would do considerably worse. I suspect that my father
7 would beat it, but I do not know, I can only
8 speculate. But I do suspect that he would beat it.

9 MR. STEWART: Is the basic reason for this
10 that the benefit of pricing out would accrue on a small
11 scale from day to day, rather than on a large scale
12 once a year?

13 PROF. BARBER: In the specific example I
14 raised, yes and no. This is the lumber business and
15 discounting at point of sale becomes a significant part
16 of the total divisible quite a bit. I suggest that
17 in the case I postulated of my father and the other
18 co-operative, the difference would be that he is the
19 owner of his business, not a paid manager. He makes
20 his own decisions. He is not responsible to a board,
21 and I think that this would give him a material
22 advantage. He is an independent retailer and is
23 personally dependent on this for his own livelihood.
24 He has never been an employee and does not care to be
25 employed by anyone. It is to him his way of life, and
26 it has been all his life, and he is not going to give
27 it up easily. He might ruin himself before he would
28 give this up. This is based on my personal knowledge
29 of my own father and my convictions about his
30 attitude towards his business. He just believes this.



1 It is a way of life with him. It is not that to the
2 paid manager of a co-operative. It cannot be.

3 COMMISSIONER PERRY: Gentlemen, the Chairman
4 has asked me to adjourn this morning's session and to
5 say that we would like to resume at a quarter to two.

6 PROF. BARBER: That is fine.

7 COMMISSIONER PERRY: Then the session is now
8 adjourned.

9 ---Luncheon adjournment.

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1 ---On resuming at 1:45 o'clock p.m.

2 THE CHAIRMAN: Yes, Mr. Stewart.

3 PROF. BARBER: Before we commence I should
4 like officially to file another document. This is one
5 I quoted from but I think it is of interest to the
6 Commission. It is entitled "Federal Taxation Income
7 of Co-operative Trading Organizations in the United
8 States and Canada", and is by Mervyn Woods. It was
9 submitted in part fulfillment of the requirement for a
10 degree of Doctor of Juridical Science at New York
11 University School of Law.

12 THE CHAIRMAN: You are filing the entire
13 thesis, are you?

14 PROF. BARBER: Yes, sir.

15 THE SECRETARY: This will be Exhibit 298.

16 THE CHAIRMAN: That is so far unpublished, I
17 take it?

18 PROF. BARBER: No, it has not been published.

19 THE SECRETARY: May I ask if the witness
20 knows whether it is with the permission of the University?

21 PROF. BARBER: This is with permission of Dr.
22 Woods. Presumably it is his property to do with as he
23 sees it.

24 THE CHAIRMAN: Well, I do not think that will
25 be of any trouble here.

26 MR. STEWART: Is this Mr. Woods now Mr.
27 Justice Woods of the Saskatchewan Court?

28 PROF. BARBER: Yes, the same.

29 ---EXHIBIT NO. 298: Book by Mervyn Woods,
30 entitled: Federal
Taxation Income of Co-
Operative Trading



1 Organizations in the
2 United States and Canada.

3 MR. STEWART: Now, gentlemen, I think the
4 next step we might consider a little is the case study
5 involving federated co-operatives and a hypothetical
6 company, which appears at pages 82 to 88 of your
7 submission. Mr. Chairman, I think you would perhaps
8 like Professor Barber to lead us through this section
9 of the submission.

10 THE CHAIRMAN: I think so. It is an
11 opportunity for both you and ourselves to ask questions
12 where we do not understand the figures as we proceed.

13 PROF. BARBER: Then in that case I think I
14 will read commencing at page 82.

15 "In this study an attempt
16 has been made" --

17 THE CHAIRMAN: Just a minute. We have all
18 read this. How much do you propose to read?

19 PROF. BARBER: There is probably no point in
20 reading it if you are familiar with these 11 steps.

21 THE CHAIRMAN: I think we are. What I would
22 like to do is to match the 11 steps to the statements,
23 and we can follow these steps as we go along.

24 PROF. BARBER: Okay.

25 THE CHAIRMAN: Where are the statements?

26 PROF. BARBER: Schedules A, B, C, D, E; and
27 Schedule W, X, Y and Z. That is following page 88.

28 THE CHAIRMAN: We need the three "W, X, Y",
29 do we?

30 PROF. BARBER: Yes; they are the important



1 ones at this time. "W" is information supplied me by
2 the Saskatchewan Department of Cooperation and Co-
3 operative Development. That is information which they
4 collected and is public. This information was not in
5 standard financial statement form and thus schedule X,
6 which is schedule W done over for your information, is
7 in standard financial statement form. From this
8 information, and depending a great deal on the ratio of
9 various activities to net worth, which may or may not
10 be a right way to do it, but I could think of non
11 better, the ratio of actual sales to Federated's sales
12 previous years of net worth was calculated. This
13 ratio was applied to the net worth of Hypothetical
14 Limited at the end of its fiscal year.

15 THE CHAIRMAN: The calculation is shown on X.

16 PROF. BARBER: The calculation is shown on X.
17 The ratios are shown in the last two columns there.
18 Through the use of these ratios it was possible to
19 determine, first of all, Hypothetical Limited's sales
20 figure, and from the sales figure its earnings based
21 on the same ratio of sales to earnings that Federated
22 enjoy.

23 THE CHAIRMAN: I do not wish to interrupt you
24 at this point, but it does seem to me that we would
25 best follow you if we started with one year, say 1961,
26 on Schedule W and go right across it.

27 PROF. BARBER: Okay.

28 THE CHAIRMAN: And then go through X and right
29 across the same year. I think if we do that it would
30 be best. I have read what you said and I understand the



1 point you are making as to ratios, but I should like to
2 see what you are advising precisely and where the result
3 is shown.

4 PROF. BARBER: Okay. I think I can do it but
5 it is almost a year since I went through this.

6 In 1961 the same for Federated Co-operatives
7 Limited as shown in Schedule W were \$71,940,000.00. The
8 earnings in that year were \$3.2 million. Dividends
9 which they received were \$34,000.00, and total assets
10 \$41,600,000.00.

11 Now, in the last columns we find where there
12 is a divergence between what we might call standard
13 accounting practice and co-operative accounting practice.
14 The securities listed here are securities which
15 Federated has sold. That is, they are bonds payable,
16 presumably.

17 THE CHAIRMAN: They are common and preferred
18 shares, common being \$14,992.00, and preferred being
19 four-ninety-four, according to D-1, which you have
20 published in your submission.

21 MR. STEWART: That may be the second column
22 over, Mr. Chairman. There is a column headed "Shares".
23 The column headed "Securities" may be secured liabilities.

24 THE CHAIRMAN: Yes, I am sorry, I think it is.

25 PROF. BARBER: Borrowed refunds are
26 patronage dividends which have been declared but not
27 paid out to the members, and they are shown in Federated
28 Co-operative's balance sheet as part of their equity
29 section, I think.

30 THE CHAIRMAN: That is correct.



1 PROF. BARBER: The shares are common and
2 preferred shares owned by the members, partly from
3 purchases or capital contributed predominantly from
4 patronage refunds paid, and the form of share capital
5 to members and the surplus is the statutory reserves,
6 and the surplus which they have kept on behalf of the
7 co-operative corporation, not taken as refunds, even as
8 shares or borrowed refunds for cash payments.

9 THE CHAIRMAN: You have every figure on the
10 balance sheet accounted for save current liabilities,
11 and they were not put down.

12 PROF. BARBER: I did not treat current
13 liabilities. I started to and found the effort would be
14 more than the benefit.

15 Now, from this information we go to 1961 in
16 Schedule X to get assets, which is a straight transfer
17 from the column "Total Assets" in Schedule W, which is
18 forty-one point six. Liabilities are derived from the
19 difference between the total assets and the net worth
20 as represented by surplus ~~reserves and shares~~, or
21 refunds on their financial statements.

22 THE CHAIRMAN: Or they are the total current
23 liabilities and long term liabilities as shown on the
24 balance sheets.

25 PROF. BARBER: Yes. Sales were from the
26 raw data, on Schedule W-1. With regard to before
27 tax earnings, after 1946 the Federated Co-operatives
28 became liable for income tax. I did not have a
29 complete run of financial statements of Federated
30 Co-operative so you have got the actual tax paid.



1 Therefore I could not determine what the actual before
2 tax earnings were, and I think I made this calculation
3 for something later on. I derived this on the basis of
4 an estimate of 5 per cent of earnings paid in tax,
5 which was an approximate average from the financial
6 statement which I had.

7 THE CHAIRMAN: According to the figures you
8 supplied us with you come pretty close. On D-2 for
9 1961 the estimated income tax is \$135,000.00. If you
10 add those to the net offerings you get \$3,343,000.00
11 instead of \$3,376,000.00.

12 PROF. BARBER: Yes, \$3,343,000.00. So that
13 I have overstated the before tax earnings.

14 THE CHAIRMAN: It would be very close.

15 PROF. BARBER: Yes. It was close enough
16 in view of the grossness of the technique anyway.
17 Then on that basis I have the tax which they have paid
18 in each year from 1946 to 1961.

19 THE CHAIRMAN: Where do you get that from?

20 PROF. BARBER: I get that by using the
21 five per cent figure.

22 THE CHAIRMAN: Thank you.

23 PROF. BARBER: Then, of course, prior to 1946
24 the after tax earnings were the same as the before tax
25 earnings, so that this comes from the raw data. Note
26 that the after tax earnings were from the raw data all
27 the way down the line. The earnings reported in
28 Schedule W, which I get from the Department.

29 COMMISSIONER GRANT: May I have one matter
30 clarified. You estimate your tax on before tax earnings



1 at 5 per cent on \$3,376,000.00.

2 PROF. BARBER: Yes.

3 COMMISSIONER GRANT: You would not deduct
4 from your before tax earnings your earnings paid out
5 and then take the tax?

6 PROF. BARBER: The earnings paid out in
7 dividends, you mean?

8 COMMISSIONER GRANT: Yes.

9 PROF. BARBER: Well, I was attempting to
10 equate this. If I understand what you mean, I have
11 taken the earnings which they earned and the actual tax
12 they paid to get what they had after tax, which would
13 be the equivalent figure to one for a private
14 corporation, the difference being that they did it at
15 a five per cent rate approximately whereas someone else,
16 at three million three, would do it at fifty per cent.

17 THE CHAIRMAN: You had to take five ninety-
18 fifths of \$3,208,000.00 to do it, probably.

19 PROF. BARBER: Yes.

20 COMMISSIONER PERRY: Which one of these
21 represents columns which were not estimated? Is it
22 the tax column or the before tax earnings? In other
23 words, in which direction were you making your
24 estimate?

25 PROF. BARBER: I was making it from after
26 tax earnings to get before tax earnings.

27 COMMISSIONER PERRY: I see.

28 THE CHAIRMAN: That is why it is multiplied
29 by five ninety-fifths.

30 COMMISSIONER PERRY: Yes. If you multiply it



1 by twenty it is approximately the same answer.

2 MR. STEWART: Actually it was derived from
3 adding together surplus reserves and shares, as
4 indicated by their financial statements. The change in
5 the net worth from the previous year derived, of course,
6 from the net worth ---

7 THE CHAIRMAN: I do not follow that.

8 MR. STEWART: I have the net worth, say in
9 1960, as 18.067, and in 1961 as 19.325.

10 THE CHAIRMAN: The earnings being \$3,200,000.00
11 odd, it must be added on to the 18.067. Then you take
12 off from that --- I am sorry, you have the 19.325
13 established by your raw data.

14 MR. STEWART: Yes.

15 THE CHAIRMAN: So by adding \$3,200,000.00 on
16 to the 18.067 do you get the amount paid out?

17 MR. STEWART: Yes. This is how I get changes
18 in net worth.

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2 From these changes in net worth I can
3 determine whether in any given year capital was
4 paid in from members' subscriptions and what
5 earnings were paid out in cash. This information
6 was not available directly, so I had to build it
7 up in this way. Then I have the ratios of sales
8 the previous year to net worth and the ratios of
9 net worth to earnings.

10 THE CHAIRMAN: I will call them ratio
11 of sales to previous years net worth. You have
12 a six digit figure. Is this 398 to 186, or what?

13 PROFESSOR BARBER: Just a minute, now.
14 I am not sure where the decimal goes. I had it
15 calculated when I did this and I did not pay much
16 attention.

17 THE CHAIRMAN: The sales are about
18 four times the previous year's net worth, so this
19 does not look like four times.

20 PROFESSOR BARBER: Well, 398.

21 THE CHAIRMAN: Against 186.

22 PROFESSOR BARBER: This is the ratio
23 which would be the 398 times ---

24 THE CHAIRMAN: I am sorry, it is 3.98,
25 186, so it is four.

26 PROFESSOR BARBER: That is right, really

27 THE CHAIRMAN: So it is literally four
28 times.

29 PROFESSOR BARBER: Right.

30 THE CHAIRMAN: The decimal point goes
after the 3.

COMMISSIONER GRANT: In terms of inventory



1
2 turnover, that would be quite small, would it not?
3 Net worth would be a fairly large figure as
4 compared to inventory?

5 THE CHAIRMAN: Sales in manufacturing
6 companies one usually considers to be about twice
7 the net worth. It does not always follow. This
8 is four times because it is trading. In chain
9 stores it is probably ten times, but when you get
10 into trading this multiplier increases, depending
11 on the type of business you are in, and four times
12 is probably right.

13 COMMISSIONER PERRY: This can be most
14 easily expressed as a ratio of 100 and convert the
15 comma to a decimal point, so then the last item is
16 about 400 and 100.

17 PROFESSOR BARBER: Fine.

18 THE CHAIRMAN: The last figure is the
19 ratio of the sales to the earnings, which again is
20 72 as against the 3, so it is about 20 to one, or
21 22.425.

22 PROFESSOR BARBER: Right.

23 THE CHAIRMAN: All right, then we must
24 go on to the next schedule.

25 PROFESSOR BARBER: Let us start back in
26 1935; it will be easier.

27 THE CHAIRMAN: I think we can do that
28 now we understand the figures.

29 PROFESSOR BARBER: In 1934, of course,
30 I started with everything equal. In 1935, applying
the ratios derived in the last two columns on
schedule X I get the sales of \$687 million as
opposed to \$693 million for Federated in year two.



1
2 THE CHAIRMAN: Because you divided the
3 actual sales by 1.158?

4 PROFESSOR BARBER: 1.158, yes.

5 THE CHAIRMAN: To bring the sales down
6 according to this ratio?

7 PROFESSOR BARBER: Yes. The earnings
8 then based on the Federated sales earnings ratio
9 becomes 42, and 42 in my case is no different
10 because I had a round. In the first year there
11 is no difference -- 15, 15 per cent tax rate; the
12 tax paid; and then remaining income after tax of
13 \$36,000 in this case. The beginning net worth
14 (that is the net worth at the end of the previous
15 period) was \$30,000. The new capital was added
16 in, that is to say that Federated had 17.8 new
17 capital contributed in year two, so my man had 18
18 contributed in year two.

17 THE CHAIRMAN: Where does 18 come from?

18 PROFESSOR BARBER: Federated, in year two,
19 had \$17.8 thousand to contribute; that is, its net
20 worth went up \$60,000 whereas its earnings were
21 only \$42,000, so it must have had 17.8 contributed,
22 so I had contributed 18 to Hypothetical; and no
23 savings paid out. I had ending net worth of
24 Hypothetical Limited of \$84,000 whereas Federated
25 net worth was \$90,000 at the end of that period.

25 THE CHAIRMAN: I am still hazy on this
26 sales figure that you have.

27 PROFESSOR BARBER: In the next year, in
28 year three, we have Federated sales of \$1,051,000
29 and a ratio of sales for previous years net worth
30



1
2 of 698. Applying 698 to previous years net worth
3 of Hypothetical, we get sales of 973. The earnings
4 based on the sales to earnings ratio from the last
5 column on schedule X, \$51,000. Apply tax rate;
6 subtract off the tax; take the beginning net worth;
7 add in capital paid in; subtract off savings paid
8 out; and start off with a new net worth again -- and
9 so on down the line reducing the difference between
10 Hypothetical Limited and Federated and end
11 up in a reduction of earnings as a result of the
12 application of tax and a corresponding reduction
13 in the ability to reinvest, and therefore to build
14 greater net worth, which presumably allows a larger
15 volume of sales.

16 THE CHAIRMAN: It is a most ingenious
17 calculation, Mr. Barber. I have not seen one just
18 like it before.

19 One criticism that I have on this is that
20 although based on the assumptions that you have made
21 here, I do not think I could find much success, but
22 one assumption which you have not got in here I
23 think is the fact that in a great number of cases
24 the dividends paid by co-operatives are taxable.

25 PROFESSOR BARBER: In the hands of
26 recipients?

27 THE CHAIRMAN: In the hands of recipients.
28 Dividends paid by a corporation are subject to a
29 dividend credit whereas patronage dividends are not.
30 That fact will have some influence, I think, on the
size of dividends paid by a corporation -- at least,
I would guess they would. Therefore, when one takes



1
2 it out of whatever it be, the organization, I would
3 think one would take out more in the case of a
4 corporation in order to make it up to some extent,
5 in order to achieve the same net return to the
6 shareholder.

7 PROFESSOR BARBER: Yes.

8 THE CHAIRMAN: I think such a look would
9 change the results you have here.

10 PROFESSOR BARBER: This analysis, of
11 course, is predicated on trying to determine
12 what happens to the institution regardless of
13 the position of the owner of this institution.

14 THE CHAIRMAN: I am not sure that you
15 can disregard them. The owners who put their money
16 into any kind of a business get a return, I think.

17 PROFESSOR BARBER: But as far as
18 competitive pressure, it is pretty difficult to
19 sort out whether ownership interest and corporate
20 interest diverge or come together, but I would
21 know of no method of producing an analysis like
22 this still taking into consideration the amount
23 of dividend tax credit and the influence of the
24 dividend tax credit on the decision of the
25 shareholders in terms of whether they retain or
26 pay out.

27 THE CHAIRMAN: I am sure your ingenuity
28 would provide an answer to that. We have had a
29 demonstration of it.

30 MR. STEWART: Professor Barber, Federated
Co-operatives is a co-operative wholesaler?

PROFESSOR BARBER: Probably more than that,



1
2 but it is that.

3 MR. STEWART: And you are concerned for
4 the purposes of this brief essentially with retail
5 sales?

6 PROFESSOR BARBER: With retail sales,
7 although I think, to avoid this confusion, I used
8 the term merchandising in the early stage of the
9 brief and I think wholesale would have to fit in
10 with merchandising. The reason I used Federated
11 is primarily because data was available and data
12 was not available for other institutions. I did
13 not think the fact that it was a wholesaler would
14 seriously distort the principle which the analysis
15 attempts to put before you.

16 MR. STEWART: You indicate on page 13
17 of your brief that you were concentrating on
18 merchandising of a consumer co-operative. Do you
19 regard wholesaling as coming within that category?

20 PROFESSOR BARBER: It is a merchandising
21 co-operative. It is wholly owned by all the
22 consumer co-operatives in western Canada. I think
23 probably its activity is as representative of what
24 is happening in consumer co-operation as with the
25 results of any organization. It presumably supplies
26 the majority of consumer co-operatives with all
27 of its goods, and in this respect it is probably
28 more representative than any single one of the
29 members.

30 MR. STEWART: Would it also be fair to
say that Federated Co-operatives have grown in a
very favourable sociological, economic and political



1
2 climate?

3 PROFESSOR BARBER: Yes, very much so,
4 but it is also fair to say as I point out in the
5 brief that other co-operatives in a less favourable
6 environment have shown a superior rate of growth
7 as opposed to their private competitors. I think
8 their growth analysis indicates that this has
9 occurred in every major economic division that I
have used.

10 MR. STEWART: In the next section of
11 your submission, which starts at page 89 and goes
12 on to page 95, you appear to be dealing essentially
13 with the question of whether or not the average
14 retail merchant is in a position to pay patronage
15 dividends. I do not think that I at any rate would
16 suggest that patronage dividends are not compatible
with the ordinary type of retail activity.

17 PROFESSOR BARBER: But the co-operatives
18 suggest this; that is why I felt it essential to
19 bring out these kind of arguments, because in
20 Saskatchewan they say this privilege is open to
21 all, so what is the fight about?

22 MR. STEWART: In theory there is no
23 question it is available, but in practice I should
24 doubt it is practised to any extent.

25 PROFESSOR BARBER: Right.

26 MR. STEWART: However, does the question
27 not still remain whether the procedure which is
28 available to the co-operatives under their particular
29 form of corporate organization of paying patronage
30 dividends and retaining the benefit of the dividends,



1
2 or a large proportion of them, may this not
3 demonstrate that in that respect at any rate the
4 co-operative form of organization is superior to
5 the joint stock form of organization?

6 PROFESSOR BARBER: I do not know what
7 you mean by superior in that case. I am afraid
8 I did not get the question.

9 MR. STEWART: Let us put ourselves in
10 the position of a shareholder in a joint stock
11 company. Perhaps it would be more applicable
12 to think of the manager of a joint stock company
13 or the board of directors. Would they not find
14 it attractive to be able to distribute and at the
15 same time get back earnings from their shareholders?

16 PROFESSOR BARBER: I would think they
17 would find it extremely attractive. As a matter
18 of fact, I was going to develop this part of the
19 brief and then did not, primarily because of lack
20 of time. I was going to develop a practical
21 situation and prove the question that I cannot
22 understand why organizations like the J. H. Ashdown
23 Hardware Company, which has a relatively captive
24 group -- not captive, but constant group -- of
25 customers does not, in fact, declare a patronage
26 refund. Presumably it pays out 50 per cent and
27 its customers pay 25 per cent presumably.

28 MR. STEWART: Just a second. When you
29 say it pays out 50 ---

30 PROFESSOR BARBER: It pays tax at 50 per
cent. Presumably its earnings are over \$35,000.
The earnings of the normal customer of Ashdown
Hardware Company would probably be less than \$35,000



1
2 so there is 30 per cent difference here. I see
3 no reason in the world why a company like this
4 should not declare a patronage refund, provide
5 a system whereby the individual hardware operators
6 who are customers of Ashdown can find sufficient
7 liquid cash to pay the tax on this patronage refund,
8 and pay the refund in the form of a non-voting
9 share in the J. H. Ashdown Hardware Company, and
10 end up with the group having 30 per cent which
11 now goes in tax. I cannot understand why these
12 people do not do this. I think it is a perfect
13 set-up.

14 THE CHAIRMAN: Do you know of people
15 who do this? Is this done as a procedure? I
16 have never seen it done?

17 PROFESSOR BARBER: Why not? Do you
18 know? Have you any idea? I do not know either,
19 but if I were asked to advise Ashdown, this is what
20 I would advise them to do.

21 MR. STEWART: Let us just suppose
22 J. H. Ashdown Hardware Company has \$1,000 that it
23 might distribute in this way to each of ten customers,
24 each of whom, let us say for convenience, happens
25 to have one-tenth of the patronage involved. What
26 you are suggesting is that the dividend amounting
27 to \$10,000 in shares of the Ashdown Company be paid
28 to each of these customers. Then this dividend
29 would have to be brought into income by the
30 individual customer?

PROFESSOR BARBER: Yes.

MR. STEWART: Your point is that the
customer will be taxable at 20 per cent, but the



1
2 Ashdown Company, you are suggesting, would be
3 entitled to a deduction at 50 per cent, so that
4 the group retains a 30 per cent benefit. How
5 is the customer going to pay the tax on the
6 \$10,000?
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1 PROF. BARBER: Here I have not followed it
2 through in detail. This is a point we have put forward.
3 I would have worked it out, but I did not have the time.
4 But I think that the share dividend, as part of the
5 total dividend, some could be in shares and some in
6 cash, so that the customer would have the cash to pay
7 the tax on the dividend he receives; so there would be
8 no burden on his liquid position.

9 THE CHAIRMAN: To some extent that represents
10 a transfer from the shareholder to the customer, or
11 a reduction in the price paid by the customer, because
12 taxes are now 100 per cent.

13 MR. STEWART: Would you be prepared to
14 substitute for "shares of the Ashdown Company",
15 "obligations of the Ashdown Company"?

16 PROF. BARBER: Yes.

17 MR. STEWART: Because it occurs to me that
18 the existing shareholders of Ashdown might not be too
19 happy at ---

20 PROF. BARBER: Or script, if you like. I do
21 not care, as long as the customer is prepared to
22 accept it, and inasmuch as it has some value, he should
23 be prepared to accept it. If the mechanics for it are
24 properly established, it should not cost him anything
25 to receive this. It costs the federal treasury, not
26 the Ashdown or the customer, and I cannot see why that
27 is not done.

28 THE CHAIRMAN: I do not see why it should be
29 done. It costs Ashdown whatever is the net after taxes,
30 does it not? It reduces that by 50 per cent, and



1 therefore the shareholders would bear the difference?

2 PROF. BARBER: But Ashdown would retain the
3 funds, the interest on which would be worth some off-
4 setting ---

5 THE CHAIRMAN: You lose the equity to the
6 shareholders or you give them some kind of redeemable
7 security, either a note, bond or some other kind of
8 redeemable security, so it would be paid off sooner or
9 later?

10 PROF. BARBER: Yes. But assuming that your
11 primary objective is growth, and remains growth, this
12 is less of a consideration.

13 THE CHAIRMAN: Assuming you want to reduce
14 your prices, yes.

15 PROF. BARBER: It seems to me there are a
16 number of firms in this position in the Dominion that
17 have a relatively large body of relatively constant
18 customers that are taxed at a lower tax rate. As a
19 matter of fact, in the case of Ashdown the tax rate
20 might be negligible in the hands of a dividend
21 proprietor.

22 MR. STEWART: This is a possibility that we
23 can consider. Then in the next section of your
24 submission you go on, starting at page 96, and deal
25 to a considerable extent with the question of whether
26 patronage refunds are not income of the co-operative.

27 At page 99 you say, at the beginning of the
28 last paragraph on the page:

29 "If there is a clear case
30 of inequity between taxpayers as a



1 result of the application of the
2 definition of income, it would
3 seem to be a simple matter to
4 change the definition".

5 The question still remains, of course, whether
6 there is inequity which this Commission recognizes as
7 such and thinks should be redressed. The basic
8 question that you are referring to at this stage is
9 whether the income is that of the co-operative or that
10 of its patrons. The co-operatives, as you know,
11 approach this particular question in a number of ways.
12 Some of them put forward the agency doctrine; some
13 put forward the partnership doctrine; some of them
14 claim that co-operatives are not out for profit, they
15 are not profit seeking or profit making organizations;
16 some of them put forward the price adjustment theory.

17 We have had, I may say, a considerable
18 discussion on all these theories here on other occasions.
19 Is it possible, however -- I would like to get your
20 reaction to this -- that we are dealing, in the
21 co-operative, with something which is sui generis,
22 something which is unique, quite a different form of
23 business organization from any other which exists;
24 that these concepts of agency, partnership, etc. which
25 we have developed and think of in relation to ordinary
26 types of corporations do not apply here at all, and
27 that there is fundamentally no reason why in the
28 co-operative form of organization this income should
29 not be treated as income of the individual cooperator
30 rather than of the co-operative itself?



1 PROF. BARBER: There are several parts to
2 that, and it gets fairly complicated. Mervyn Woods
3 believes, as you suggested, that the co-operative is
4 something unique; that the law which has been developed
5 to handle corporate entities which have been with us
6 for some time is not admirably suited to dealing with
7 co-ops. That is, tax law.

8 This, I submit, is something for your
9 consideration, because I think it is a good doctrine
10 and I think he has done a very good job. But if the
11 application of whatever system is devised results in the
12 ability of one organization to do better than another
13 organization in the same line of endeavour, all other
14 things being equal, then the regulations applied are
15 not equitable.

16 I do not think the law that exists, judging
17 from my knowledge of Dr. Woods' position -- I do not
18 think that an easy method can be found within the
19 existing law to accomplish precisely what the Retail
20 Merchants Association, the grain people and the
21 co-operatives would like to see. Obviously there is
22 backing and filling on both sides of this question.

23 We feel, as we indicate in our brief, that
24 under the present circumstances and given the present
25 pressure, the easiest thing to do is to consider
26 these organizations the same as any other corporation,
27 for taxation purposes. This is the essence of our
28 recommendation.

29 This is obviously not acceptable to co-
30 operatives. It would not be acceptable to me if I were



1 a co-operative. But anything short of total equity is
2 not acceptable to the retailers of this country, to the
3 private grain trade, to the banks, in competition with
4 credit unions. Anything short of some kind of basis
5 of equity, which does not exist in the present
6 situation, is not acceptable to us.

7 I think that what you see with the present
8 co-operative position is that for one purpose, for
9 purposes of limited liability, for purposes of
10 contracting, for all of the purposes for which you and
11 I would use a corporation, the co-operative members
12 used their co-operative corporation, take all the
13 advantages of the corporate form, but when it comes to
14 paying income tax the co-operative says, "No; we are
15 not really a corporate form; we are something else".
16 We are some kind of an agency, or some kind of a
17 partnership", or "The only reason we established this
18 organization was to sort of get our goods, because we
19 were being downtrodden by the commercial interests. So
20 we had to do this. We like all these other advantages
21 of the corporate form, but please do not make us
22 accept one of the major disadvantages which this form
23 confers on other groups of people in this society.
24 We pay our tax at the local level. We pay our sales
25 tax. We pay all these things. But somehow or other
26 we do not feel obliged to pay our fair share of
27 federal services, or federal-provincial services paid
28 through income tax".

29 How you get around this precisely and
30 specifically, I don't know. We suggest, of course, a



1 method but, as I say, this is not acceptable to the
2 co-operatives.

3 THE CHAIRMAN: Professor Barber said something
4 which I think is of extreme significance, if I understood
5 him correctly, and I would like to know if I did. Your
6 recommendation, as you point out, leads to equity, to
7 try to establish an appropriate, as you believe, amount
8 of taxation as between the corporate form of enterprise
9 and the co-operative form of enterprise?

10 PROF. BARBER: Yes.

11 THE CHAIRMAN: And you believe, I think, that
12 that would achieve equity if it were done?

13 PROF. BARBER: Yes.

14 THE CHAIRMAN: I thought I heard you say that
15 if you were a co-operative you would oppose such a
16 change.

17 PROF. BARBER: Yes.

18 THE CHAIRMAN: But if this were equity, why
19 would you oppose it?

20 PROF. BARBER: Well, I oppose anything that
21 improves someone else's position vis-a-vis mine,
22 regardless of equity.

23 THE CHAIRMAN: Whether it be equitable or not?

24 PROF. BARBER: I believe in equity, but I am
25 also very selfish.

26 THE CHAIRMAN: I wanted to understand clearly
27 what you are seeking. Is it equity, or somebody else's
28 advantage? Is it the advantage of the co-operative
29 of the advantage of yourself, or are you trying to put
30 before us equity?



1 PROF. BARBER: I personally am attempting to
2 put before you equity, and it is my belief that the
3 Retail Merchants Association is attempting to put before
4 you equity. I do not think I would have taken on this
5 task for them if I had thought they were attempting to
6 destroy co-operatives or to achieve a position of
7 advantage vis-a-vis co-operatives. This is my firm
8 belief.

9 THE CHAIRMAN: On the other hand, if you were
10 a co-operative, you said, you would be opposed to what
11 you are doing now, be it equity or not?

12 PROF. BARBER: From a selfish point of view,
13 certainly.

14 THE CHAIRMAN: Thank you.

15 PROF. BARBER: I did this work for the Retail
16 Merchants Association because I believe this is a
17 position that should be put forward; but I also got
18 paid for it. I believe there is always a conflict in
19 what we do in this kind of area.

20 MR. STEWART: People's interpretations of
21 what is equity in particular situations also varies.

22 PROF. BARBER: Yes.

23 THE CHAIRMAN: That is what I was coming to.
24 I suppose that is why we are here, to make up our
25 minds on that.

26 MR. STEWART: Yes, Mr. Chairman. Professor
27 Barber, there was one aspect of what you said that I
28 would like to come back to. I wonder if, when you
29 said what you did about corporations, you were assuming
30 that there is simply one type of corporation.



1 A corporation, to a lawyer is a separate,
2 fictitious, legal personality, separate from its members,
3 as a matter of law. Yet if the law is capable of
4 envisaging a fictitious, legal personality, it may be
5 capable of envisaging fictitious, separate, legal
6 personalities of more than one type. There are certain
7 things which distinguish these co-operatives from other
8 corporations.

9 The evidence which has been given to this
10 Commission on other occasions, for example, is that
11 under the co-operative type of corporation not only
12 are the what you and I might call the earnings, or the
13 income, available for distribution by way of patronage
14 dividend, but they must be so distributed.

15 PROF. BARBER: Pardon me. If they are
16 declared as patronage refunds, the members and/or
17 directors, depending on the specific relationship within
18 the individual co-operative, have the right to decide
19 that all the earnings will be held as earnings of the
20 co-operative corporation.

21 It is presumably the advantage in terms of
22 tax which accrues to the group, the corporation and the
23 members, that induces the members or the corporation
24 to declare its earnings as patronage refunds. They
25 have the right not to declare them as patronage refunds,
26 but obviously from an economic point of view this
27 would be a foolish thing to do.

28 MR. STEWART: But if I remember correctly the
29 evidence which has been given, it is this, that
30 except to the extent -- perhaps I am putting it a



1 different way around from the way you have just suggested,
2 and it may be that your interpretation is correct, but
3 let me put it to you this other way -- that except to the
4 extent that it is
5 determined that earnings will be added to reserves and
6 retained by the corporation, earnings must be
7 distributed by way of patronage dividend.

8 PROF. BARBER: I would suggest that this is
9 a matter of legal fact . As you say, my interpretation
10 may be different from yours. I do not think I have
11 anything with me right now which would indicate what
12 the legal fact is. This would be contained in various
13 acts, the provincial acts under which these groups are
14 incorporated. But it is my belief that this is so.
15 Certainly all the Income Tax Act says is they cannot,
16 through the declaration of patronage refunds, reduce
17 their income ^{below} / 3 per cent of capital employed, with the
18 usual provisions.

19 MR. STEWART: For tax purposes?

20 PROF. BARBER: For tax purposes; but it was
21 always my understanding that there was nothing to
22 prevent a co-operative corporation from holding all its
23 earnings as surplus in the hands of the corporation.

24 THE CHAIRMAN: That is not my understanding,
25 Mr. Stewart. Professor Barber and I are entirely at
26 cross-purposes on that. I understand -- and I think
27 the provincial corporate acts so provide -- that
28 co-operatives are required to distribute their entire
29 earnings, subject only to certain reserves which are
30 permitted under the same acts.

PROF. BARBER: I will take it upon myself to



1 look this up and report my findings, regardless of
2 whether they agree with my point of view or yours at
3 the present time. I will find this out.

4 MR. STEWART: That would be very helpful. I
5 think to some extent this may be contained in the
6 statutes; to some extent it may be contained in the
7 standard by-laws or other by-laws of particular co-
8 operatives.

9 PROF. BARBER: If it is in their by-laws, they
10 have the right to change their by-laws.

11 MR. STEWART: I think this is a point which,
12 as you said, can easily be determined. Like the
13 Chairman, the impression has been instilled in my mind
14 ---

15 PROF. BARBER: It has to be a statutory thing.
16 If it is a by-law thing, this would agree with my
17 interpretation. If it not statutory, then the by-laws
18 of individual co-operatives are neither here nor there.
19 Agreed?

20 MR. STEWART: Then we may get to the point
21 of what do by-laws in fact provide on this particular
22 point.

23 PROF. BARBER: But who makes the by-laws?

24 MR. STEWART: Presumably, the members.

25 PROF. BARBER: And the members, therefore,
26 have the right to change the by-laws.

27 MR. STEWART: Yes, but what are in fact the
28 normal provisions with regard to distributions?
29 However, I am not asking you to agree with me on this
30 particular point at the moment. This is something, as



1 you say, that we can determine.

2 COMMISSIONER PERRY: I think you might find
3 out, Professor Barber, that these provisions are all
4 set out in the Department of Agriculture bulletin,
5 which compiles the main statutory provisions governing
6 co-operatives in Canada.

7 PROF. BARBER: I have not seen that.

8 COMMISSIONER PERRY: We were provided with
9 this at one hearing.

10 MR. STEWART: Yes. I would like to emphasize,
11 Professor Barber, that I am not in any sense being
12 dogmatic about this. I am just giving you my own
13 recollection.

14 PROF. BARBER: Yes. There is obviously a
15 difference of opinion on a matter of fact, which there
16 is no point in pursuing.

17 MR. STEWART: However, if it is the fact that,
18 subject to statutory requirements as to reserves, the
19 earnings of co-operatives must be distributed to their
20 members, this is one distinguishing feature between
21 that particular type of corporate personality and the
22 normal joint stock type?

23 PROF. BARBER: Except that I think we both
24 have to realize the difference between defacto and
25 de jure distribution; if they have to distribute it,
26 but in fact keep it. The precise legal control over
27 the retained but distributed surplus probably does not
28 matter. It certainly does not matter from the standpoint
29 of the competitive economic pressure.

30 THE CHAIRMAN: We have had evidence that,



1 whereas they may decide themselves as to what proportion
2 is in cash or in script, shares, or whatever it may be,
3 there is a limited time for repayment of the paper which
4 was issued.

5 PROF. BARBER: Within twelve months, I think,
6 of the close of the fiscal year.

7 THE CHAIRMAN: I do not think it is as fast as
8 that, actually.

9 PROF. BARBER: Maybe it is eighteen months.

10 MR. STEWART: You are thinking of the tax
11 provision?

12 PROF. BARBER: But there is no provision in law,
13 to my knowledge, that requires the actual payment of
14 cash within any period of time. In fact, the dividend
15 can be retained indefinitely, as it is in the case of
16 Federated Co-operative. Look at the balance sheet I
17 gave you -- \$15 million worth of shares on the basis of,
18 I forget how small an amount, of contributed capital.

19 THE CHAIRMAN: I think you will find it rotates,
20 that new paper is issued and the old paper is paid off.

21 PROF. BARBER: Yes, but I do not think the
22 shares rotate.

23 MR. STEWART: Anyway, what I am trying to get
24 at is this, that here you have a particular type of
25 organization which happens to have a corporate form.
26 It may be argued that it acts as a sort of agent for
27 its members collectively. It has particular rules
28 about the distribution of earnings, assuming that my
29 impression on that point is correct.

30 It may be that this type of organization, taking



1 all its attributes together, is essentially different
2 from the normal type of corporation with which we are
3 concerned, and that on that basis there may be some
4 logic or equity in treating it differently from the
5 ordinary corporation, for tax purposes

6 PROF. BARBER: I think, here again, we have to
7 distinguish between the legal, technical differences and
8 the economic impact created by the existence of this
9 organization or other organizations in similar lines
10 of endeavour, which is my approach to this question. I
11 really cannot get very exercised about the agency
12 argument or these other arguments, because my main
13 concern is with regard to the economic impact created as
14 the result of the ability of this organization to retain
15 a higher proportion of its earnings than some other
16 organization.

17 MR. STEWART: Your argument in this regard
18 comes down to this, that whether they intend to or not,
19 these co-operatives are in the business of profit
20 making?

21

22 --

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1 They are competing directly with other people who are
2 also in the business of profit making, and should be
3 treated in the same way for taxation purposes.

4 PROF. BARBER: If not the allocation of
5 resources is distorted. Presumably this is an objective
6 of the tax system, this equitable allocation of resources.

7 MR. STEWART: I think your case in this regard
8 is well summed up, if I may say so, on pages 118 and 119
9 of the brief. I should like to find out from Professor
10 Barber if the substance of your argument is contained on
11 those two pages.

12 PROF. BARBER: Yes.

13 MR. LESSER: I was just thumbing through some
14 of the Royal Commission's hearings and ---

15 MR. STEWART: This must have been a very
16 edifying process.

17 MR. LESSER: Exciting. As a matter of fact I
18 thought it very informative and some of the comments
19 you made I was prepared to give vent to, but that is
20 another matter. There is an article here which I thought
21 was apropos, and that is a section read here in the
22 transcript, section 57 of Chapter 40 of the Revised
23 Statutes of New Brunswick. This is the Co-operative
24 Association's Act. The heading is:

25 "'Disposition of Surplus.

26 1. The Directors, after making
27 proper allowance for
28 depreciation and bad debts,
29 shall set aside annually or
30 semi-annually not less than



1 five percentum of the surplus
2 arising from the business of
3 the Association for a reserve
4 fund until such fund is
5 equal to 30 percent of the
6 paid up capital.'

7 The next subsection is:

8 '2. The remainder of the surplus
9 shall be apportioned in the
10 manner determined by by-laws'.

11 And the Association has the authority
12 to make its supplementary by-laws
13 governing the disposition of this
14 balance."

15 You appear to give the co-operative the power to do as
16 they wish as far as that distribution is concerned.

17 THE CHAIRMAN: That is not the way I understand
18 that. It seems to me that that final paragraph is a
19 requirement to distribute. But the method of
20 distribution is discretionary to the directors.

21 MR. LESSER: It could be postponed for any
22 number of years and give the co-operative the advantage
23 of retaining that power.

24 PROF. BARBER: Apportioning in this case, Mr.
25 Carter, could be apportioning to members and to the
26 Corporation. It does not say that it has to be
27 apportioned to members. It says "shall be apportioned
28 in the manner determined by by-laws".

29 THE CHAIRMAN: We must look further at this,
30 because the word "apportioned there" means to me



1 "apportioned to the members". I do not know how you
2 include the company which has already got it if you are
3 going to apportion it. It must be moving away from the
4 person or body who has it if you are to apportion it,
5 I think.

6 MR. LESSER: This is a quotation from volume
7 No. 49, page 3575.

8 COMMISSIONER BEAUVAIS: Do you have the same
9 situation in Quebec?

10 PROF. BARBER: Did you say that there is the
11 same situation in Quebec?

12 COMMISSIONER BEAUVAIS: Yes.

13 PROF. BARBER: I do not know. I am not
14 familiar, except vaguely, with any of the precise
15 requirements of statutes.

16 COMMISSIONER GRANT: On this point, it seems
17 to me that we are here dealing with federal statutes
18 and the Income Tax Act. The federal statute does not
19 say that the earnings shall be distributed in accordance
20 with the act of incorporation. It disregards provincial
21 legislation altogether and it sets out a means of
22 avoiding a payment of a high tax.

23 PROF. BARBER: Yes, that would be my
24 interpretation.

25 COMMISSIONER GRANT: If that scheme as set
26 forth in Section 75 is not followed, then the inference
27 is that a tax is paid on the retained earnings.

28 PROF. BARBER: That is my understanding.

29 THE CHAIRMAN: That is the law.

30 COMMISSIONER GRANT: Therefore, I do not think



1 that provincial acts authorizing the incorporation of
2 co-operatives and what they shall do with their earnings
3 would have any bearing on the income tax position.

4 THE CHAIRMAN: It would have a bearing on the
5 Income Tax Act, because it requires them to distribute.
6 The Income Tax Act would tax in accordance with the
7 distribution.

8 PROF. BARBER: Ignoring for a minute the fact
9 that we do not know or that there is a difference
10 of opinion, it may well be that if you could presume
11 to analyze what the provincial legislators had in mind
12 if and when they required distribution, they may simply
13 be saying: "We do not trust you people to take
14 advantage of a provision which is staring you in the face,
15 and therefore we will force you and take advantage of
16 it".

17 THE CHAIRMAN: We have had days of evidence
18 on this subject put before this Commission laying down
19 to us clearly that co-operatives are required to
20 distribute, as I said earlier. If they are not then
21 there is a huge ground which I have to go over again,
22 because I thought that was made clear. Certainly our
23 staff will check that. Mr. Perry referred to the
24 little book which we had which showed the requirements
25 of the different provinces to distribute.

26 COMMISSIONER GRANT: I do not disagree with
27 you but I do say that the Income Tax Act is not
28 concerned, so far as Section 75 is concerned, from a
29 taxation point of view with what are the requirements of
30 the provinces with respect to distribution.



1 MR. STEWART: In any event, so far as these
2 gentlemen are concerned it seems quite clear that whether
3 or not there is any logical basis for distinguishing
4 between these two types of corporation, for certain
5 purposes they would not agree that there is any valid
6 basis for distinguishing between them for tax purposes.

7 PROF. BARBER: I think that is a fair statement.
8 Certainly when any differential treatment results in a
9 competitive advantage conferred by law which is available
10 to one form of enterprise but is not available to a
11 competing form of enterprise, this will distort the
12 allocation of resources.

13 THE CHAIRMAN: This comparison has been between
14 a corporation and a co-operative all the way through.
15 How about a sole trader? Do you propose to look at that
16 position?

17 MR. STEWART: There are differences of course.
18 The co-operatives, as I understand it, are all in fact
19 incorporated. If you compare the competition between
20 an incorporated retail merchant and a co-operative on
21 the one hand, and an unincorporated retail merchant and
22 a co-operative on the other ---

23 THE CHAIRMAN: Most retail merchants are un-
24 incorporated.

25 MR. STEWART: That is true. As far as the
26 unincorporated merchant is concerned, we obviously do
27 not get into any question of the retention of earnings;
28 the earnings are available to him as the proprietor.

29 THE CHAIRMAN: I should have thought that the
30 taxes would not be very different where the co-operative



1 is selling to the producers. Is that not true, Professor
2 Barber?

3 PROF. BARBER: I am not sure I understand what
4 you mean.

5 THE CHAIRMAN: Let us have regard to a lumber
6 dealer who is unincorporated and is competing with a
7 co-operative. He is selling his lumber to, we will
8 assume, builders and the co-operative is selling their
9 lumber to members who are members of the co-operative.
10 Now, the unincorporated owner pays tax on the profits
11 which he makes.

12 PROF. BARBER: Right.

13 THE CHAIRMAN: And he pays tax once on the
14 profit which he makes, the same as the rest of us do on
15 our pay. The co-operative pays tax on whatever is left
16 over after the patronage dividends have gone out, which
17 is the reserves. The patronage dividends are then
18 taxed in the hands of the recipients. It is true that
19 there may be a lot of people who receive patronage
20 dividends and only one person who owns the sole trader.

21 PROF. BARBER: You said, sir, that the
22 patronage refund was taxed in the hands of the recipients
23 in the case of a house builder who bought his lumber to
24 include in a house.

25 THE CHAIRMAN: I think so.

26 PROF. BARBER: Would this in fact hold true in
27 a case like this? The difference between the mechanics
28 of how he handles this patronage refund and what he
29 in theory can do with it is that in theory he can
30 reduce the price of his material. Instead of his house



1 costing him \$5,000.00 for material cost it could cost
2 him only \$4,500.00. He can reduce the price of his
3 house by \$500.00 and he would not be taxed at all.

4 THE CHAIRMAN: He would when he sold his house.

5 PROF. BARBER: Yes, on \$4,500.00 but not on
6 the \$500.00 patronage refund.

7 THE CHAIRMAN: Yes, he would, because his house
8 would cost that much less.

9 PROF. BARBER: But he sells the house for that
10 much less, so he gets all the business through other
11 builders buying their material from the proprietary
12 yard.

13 THE CHAIRMAN: He will sell the house for that
14 much less.

15 PROF. BARBER: He can afford to . He has
16 \$500.00 which the other guy has not got.

17 THE CHAIRMAN: What is he in business to do?

18 PROF. BARBER: To make a profit.

19 THE CHAIRMAN: To make the biggest profit he
20 can.

21 PROF. BARBER: If the \$500.00 figure lower
22 price represents the difference, or a portion thereof
23 represents the tax advantage possessed by the co-operative
24 and not possessed either by a proprietary or corporate
25 yard, and the builder cares to reduce his price, he will
26 attract more people to buy his house and his rate of
27 profit will be the same; but he will gather all the
28 business unto himself, distorting even further the
29 allocation of resources as between the two retail yards.

30 THE CHAIRMAN: I am putting to you the fact that



1 a builder is able, under these circumstances, to get
2 his materials for \$500.00 less than he would have got
3 his materials for otherwise. This is because of tax;
4 but it might well be because of bargains that he is
5 negotiating with people to secure cheaper materials.
6 If he happens to come out with a lower cost on his house,
7 that does not necessarily mean that any builder will
8 sell that house for less. He does not sell all his house
9 at a fixed market price. He sells the house, if he has
10 a good merchant, at the maximum that he can get and
11 maintain the position which he wishes to maintain in the
12 market.

13 PROF. BARBER: But if his objective is to
14 get a larger share of the market, the best way to do it
15 is to reduce your price, not try to maintain it.

16 THE CHAIRMAN: Not by \$500.00; perhaps by
17 \$300.00 or by \$1,000.00. It is entirely mathematical.

18 PROF. BARBER: But he has his choice. He does
19 not have to pay tax on the \$500.00.

20 THE CHAIRMAN: That is quite true.

21 MR. STEWART: If he chooses to forgo that.

22 PROF. BARBER: Yes, if he chooses to forgo it
23 in order to achieve some other objective which he might
24 have.

25 THE CHAIRMAN: There are two things; one is
26 the cost of the house and the other the selling price,
27 and they are not related one to the other of necessity.
28 They are only related because of the profit in there,
29 and if he does not consistently make a profit he will
30 get into trouble.



1 PROF. BARBER: If the patronage refund which he
2 receives from the co-operative, or some portion of it,
3 results because the co-operative does not have to pay
4 tax, the builder who buys his materials from the
5 co-operative is obviously under the Tax Act being
6 favoured considerably as opposed to the builder who does
7 not buy his materials from the co-operative. That
8 portion of the \$500.00 patronage refund which reflects
9 the difference in taxation between the two forms of
10 enterprise is a direct public subsidy to the builder
11 who buys at the co-operative and would induce all
12 builders ultimately to buy all their material from the
13 co-operative, because that is the only that they can
14 maximize their position under the regulations of the
15 game imposed by the law of taxation.

16 THE CHAIRMAN: I am sorry, I do not see it.
17 If all other circumstances are the same and he is able
18 to secure materials for \$500.00 less, he will make
19 \$500.00 more profit and will pay tax on it. If you are
20 changing all the circumstances, of course ---

21 PROF. BARBER: Does he not have his choice?
22 This is crucial.

23 THE CHAIRMAN: Not many choices. He has a
24 choice as to how much he pays his labour. He has a
25 choice as to how much he pays for the land, for the
26 site. He has a choice all the way through. But to say
27 that he will necessarily reduce the price of his house
28 if he bought cheaper materials is not right.

29 PROF. BARBER: The builder who does not buy
30 materials from the co-operative is not given the choice.



1 The builder who buys \$500.00 more ---

2 THE CHAIRMAN: He still has a choice as to what
3 price he sells the house for.

4 PROF. BARBER: Assuming that everything else
5 is equal we have two identical houses and two identical
6 builders. Everything in the house is equal except
7 that contractor A buys from the co-operative and
8 contractor B buys from a private individual. Contractor
9 A gets a patronage refund from the co-operative. The
10 contractor who did not shop at the co-operative has
11 a cost of construction \$500.00 more than the builder
12 who shopped at the co-operative.

13 Now, if the builder who shopped at the
14 co-operative desires to get all the business in the
15 community, he can take the entire \$500.00 advantage
16 which he has and reduce his price, or he can take
17 some portion to reduce the price a little, increase
18 his profit a little; or he can leave it identical and
19 they can both sell at the same price. The man who
20 did not shop at the co-op either loses business to
21 the guy who did shop at the co-op; or he is \$500.00
22 worse off in terms of potential profit from the sale
23 of the house, assuming that they both sell at the
24 same price.

25 THE CHAIRMAN: That may be but ---

26 PROF. BARBER: He has less of this world's
27 goods as a result of his having shopped at the private
28 outlet; but the man who had shopped at the co-operative
29 outlet in this example has more of this world's
30 goods, a portion of which is a direct public subsidy.



1 THE CHAIRMAN: That is not tax. It can only
2 result in tax if the federal treasury has more or less
3 money under both circumstances. The federal treasury
4 will come out at about the same. Therefore it is not
5 a matter of taxes, it is a matter of the price charged
6 and ---

7 PROF. BARBER: The federal treasury taxes the
8 private retailer. The federal treasury did not tax
9 the co-operative retailer. So the portion which the
10 co-operative retailer ships back to the retailer or who-
11 ever shops from him is a direct public subsidy.

12 THE CHAIRMAN: The patronage dividend will,
13 under some circumstances, be taxable to the builder.
14 The federal government will get taxes on that. In
15 the other case where it is not a co-operative the
16 owner will pay the tax. I suggest that they are about
17 the same.

18
19 --

20
21 --

22
23
24
25 --



1
2 Only if the builder maintains the price of his house,
3 but one way or another he has an advantage.

4 THE CHAIRMAN: Thank you very much.

5 COMMISSIONER GRANT: The analogy that has
6 been made of the individual operating as a partner-
7 ship or of a syndicate and the individual acting as
8 a cooperative is very clear if limited to the producer
9 cooperative, the agency cooperative, and there is no
10 distinction that I know of in the taxes which would be
11 paid on earnings as between one group and the other.
12 But there is a very definite distinction that has not
13 been touched upon, and that is that in the syndicate
14 or the partnership the members are fully liable for
15 the debts of the partnership, and in the cooperative
16 it is a joint stock company and there is limited
17 liability. I think tax-wise, in straight producer or
18 agency cooperatives, there is no distinction in the
19 amount to be paid on earnings.

20 COMMISSIONER PERRY: I think one problem
21 with Professor Barber's argument is that it assumes
22 that the corporate tax rate is one-hundred per cent.

23 not come one-hundred per cent. This
24 \$500 does not come one-hundred per cent out of the
25 public treasury which would have to be the case if
26 it were all public subsidy.

27 PROFESSOR BARBER: But some portion of it
28 does.

29 COMMISSIONER PERRY: Perhaps ten per cent,
30 fifteen per cent depending upon the rate of tax.

PROFESSOR BARBER: If I do not have access
to a cooperative and I am a citizen of the Dominion
of Canada and I do not have access to a cooperative,



1
2 I receive less benefit as a consumer than the man who
3 does have access to a cooperative under the tax
4 regulation by the amount of the subsidy, regardless
5 of what it is. As a principal, I receive less.
6 The only way I can maximize as a consumer -- assuming
7 the two outlets are of equal efficiency -- the only
8 way I can maximize my position under the present tax
9 structure is to shop at a cooperative.

10 COMMISSIONER PERRY: In a static economy
11 that might be so but analyses show that stores right
12 next door to each other are selling the same goods
13 for fifteen and twenty per cent difference.

14 PROFESSOR BARBER: Then scribus is not
15 peribus, but as long as you assume scribus peribus you have
16 to shop at a coop.

17 THE CHAIRMAN: I think there may be some
18 advantages.

19 MR. STEWART: Mr. Chairman, I have asked
20 comparatively few questions upon the portions of this
21 brief which run from page 89 to page 125, but that is
22 basically because the argument that is made in those
23 pages is argument with which I think the Commission
24 is familiar and argument which is clearly expressed.
25 Subject to the wishes of the Commission I would be
26 rather disposed to conclude my questions at this stage.

27 THE CHAIRMAN: Mr. Lesser, Professor Barber,
28 I do not think we have any more questions. Is there
29 anything you feel we have overlooked and which you
30 would like to put to us or stress in any way, or are
there any concluding remarks you would like to make?

MR. LESSER: I think Professor Barber has
exhausted not only himself but possibly his material



1 at this point.

2 THE CHAIRMAN: But not us.

3 PROFESSOR BARBER: I was going to say that
4 I hope I have not exhausted the Commission.

5 I must say it has been a pleasure for me
6 to appear before you. I have enjoyed this experience
7 a great deal. I have had fun today.

8 THE CHAIRMAN: Well, you have given us a
9 great deal of enjoyment; it has been most stimulating.
10 I might have continued our argument a great deal
11 further because I must say I was enjoying it very
12 much, but I did not think I was making an awful lot
13 of headway.

14 PROFESSOR BARBER: The feeling is mutual,
15 sir.

16 THE CHAIRMAN: Thank you very much indeed
17 for your assistance and for appearing and preparing
18 such a very excellent submission. We have been very
19 glad to see you.

20 Mr. Secretary, is there anything further?

21 THE SECRETARY: There is nothing further.

22 THE CHAIRMAN: The hearing will be stood
23 over until 9:30 tomorrow morning.

24 --- Adjournment.
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30

ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT
OTTAWA

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ROYAL COMMISSION ON TAXATION

Proceedings of hearings held before
the Royal Commission on Taxation
in the Supreme Court of Canada
Building, Ottawa, Ontario, commencing
at 9:30 a.m. on Friday, January
10th, 1964.

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* * * * *



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2 --- Brief of Canadian Labour Congress.

3
4 Submission of Canadian Labour
5 Congress

6 APPEARANCES:

7 Mr. D. MacDonald, Secretary-Treasurer,
8 Mr. R. Bell, Associate Director of Research.
9 Mr. A. Andras, Director of Legislation.
10 Mr. A. Hepworth, Assistant Director of
11 Legislation.
12 Mr. J. Morris, Executive Vice-President.

13 THE CHAIRMAN: Thank you, Mr. Secretary.
14 Good morning Mr. MacDonald and gentlemen. Good morning
15 again, I should say. We are very glad to have you
16 back. We are grateful to you for coming to see us
17 twice.

18 We have read what you have presented
19 with very much interest. This morning, in order to
20 do full justice to what you have and examine this
21 as carefully as we are able to, we have asked our
22 counsel, Mr. Coyne to lead the questioning. That
23 does not exclude us, of course, it will just be
24 one more asking questions, that is all.

25 There are some matters of principle with
26 which you have dealt here and we would like to go
27 into as far as possible.

28 Before we proceed to our questions, have
29 you anything, Mr. MacDonald, you would like to say?

30 MR. MacDONALD: Merely, Mr. Chairman and
members of the Commission that on behalf of the
Canadian Labour Congress, we welcome this significant



1
2 opportunity to appear before your august body and
3 present our brief in a more comprehensive manner than
4 we did some nine months ago.

5 At that time our representations were
6 merely of a preliminary character and they have now,
7 of course, been developed in a more elaborate manner.

8 As you have indicated, the submission in
9 its final form has been with you for some ten days.
10 We are confident that you and your members of the
11 Commission have given it your attention. You have
12 no doubt noted, of course, we have -- from your
13 reading of the brief -- our recommendations are at
14 considerable variance with some that you have been
15 receiving recently and we naturally anticipate that
16 as a result this could give rise to a considerable
17 amount of questioning.

18 I would like to introduce formally to
19 the Commission my colleagues and associates. On my
20 right I have the Executive Vice-President,
21 Joseph Morris, Mr. R. Bell, our Associate Director
22 of Research and Mr. A. Andras our Director of
23 Legislation. Mr. Bert Hepworth, our Assistant
24 Director of Legislation.

25 As indicated to you on our previous
26 appearance, I do not want to sail under false
27 colours. I do not profess to be any expert in this
28 very specialized field of taxation. The main role
29 of Mr. Morris and myself in appearing here would
30 be to deal with any matters of general policy
that may arise in connection with our presentation
but specific matters, of course, of a technical nature



1
2 will be dealt with primarily by Mr. Bell and our
3 other associates.

4 THE CHAIRMAN: Please, Mr. MacDonald,
5 do not try to be modest. All the world are experts
6 on this subject.

7 MR. MacDONALD: Well, I am being consistent.
8 I have been at variance with most of the world all
9 my life so I guess I still am.

10 As you will note, our representations
11 flow from the basic policies of our Congress which
12 are adopted in our biennial conventions represented
13 by our membership throughout the length and breadth
14 of this country and representing in excess of
15 one million organized workers. It may be summarized
16 as being four part. The first: whenever possible
17 and practicable the incidence of taxation should
18 be based on the ability to pay. Second: the
19 personal income tax because of its capacity for
20 progressiveness, can best be adapted to comply with
21 this principle. Third: the tax system should
22 be used to bring about a more equitable redistribu-
23 tion of the nation's income. Again this is the
24 principle achieved through progressive personal
25 income tax by taxing lower incomes much less than
26 higher incomes to finance general social purposes.
27 Fourth: the tax system used as a fiscal instrument,
28 can play an important role in regulating the
29 nation's economy. We believe if full employment
30 and adequate growth rates are to be attained and
maintained, the tax system must play an important role.



1
2 This is our basic position, our funda-
3 mental policy from which all else flows.

4 We are from here in, of course,
5 completely at the disposal of the Commission and we
6 merely express the hope that our appearance here
7 may be useful to the Commission in discharging its
8 tremendously significant responsibility of dealing
9 with this important matter and arrive at conclusions
10 which will be to the advantage of our nation and
its people.

11 THE CHAIRMAN: Thank you, Mr. MacDonald.
12 I know you will be of assistance to us. I am
13 looking forward to our further discussion. I think
14 we may now proceed to our questions. Mr. Coyne.

15 MR. COYNE: Yes, Mr. Chairman. Mr.
16 MacDonald, I wonder if we might commence our
17 discussion by reviewing briefly some of the general
18 principles which you have just referred to and
19 which are dealt with in the early part of the brief
20 where you set forth the Congress's basic policy
regarding taxation.

21 In paragraph 3 you state your belief
22 that whenever possible and practicable the incidence
23 of taxation should be apportioned according to
ability to pay.

24 You then recognize that revenue
25 necessities or aspects of a minor policy may
26 interfere with this aim but I am quoting again:
27 "within the limits imposed by necessity, ability
28 to pay is the only acceptable principle if equity
29 is to be the basis of the tax structure".
30



1
2 You then equate ability to pay with the
3 principle of progressivity and point out that the
4 personal income tax can best be adapted to that
5 principle. Finally on this point you mention in
6 paragraph 7 over the page what is sometimes called
7 the benefit principle but dismiss it as being seldom
8 practicable to do particularly because it is
9 impossible in the case of many government services
10 to determine who benefits and to what degree.

11 Now, coming back to the statement that
12 ability to pay is the only acceptable principle if
13 equity is to be served, I would like to put to you
14 two propositions and then ask for your comments.
15 My first proposition is this: that with one or two
16 minor and unimportant exceptions, the only progressive
17 taxes which we have today is the personal income
18 tax. Virtually all other taxes being of a
19 proportional type and yet out of total government
20 revenues at all the levels, excluding inter-government
21 transfers, of over \$12 billion, only 2.6 billions,
22 speaking roughly of course , or just over 20% are
23 raised by the personal income tax imposed by the
24 federal and provincial governments.

25 The question which you might deal with
26 in relation to that proposition is: whether the
27 Congress takes the view that taxes which at the
28 present time represent almost 80% of government
29 revenues are inequitable because they offend the
30 ability to pay principle.

 My second proposition -- if you would not
mind I would put them both and then we can perhaps



1
2 discuss them both is this: that throughout the
3 private sector of the economy, with a few minor
4 exceptions, the accepted method of pricing of goods
5 and services pays no attention at all to ability to
6 pay and this is also true of an increasing number of
7 goods and services provided by the government or
8 governmental agencies as, for example, the services
9 of the general post office, the sale of water by a
10 municipality and the sale of electricity by
11 provincial or municipal utilities; the sale of
12 car insurance by a provincial government agency.

13 My question on this proposition is this:
14 in this day and age, when the public and private
15 sectors are becoming increasingly distinguishable on
16 functional grounds, how is it possible to say goods
17 and services provided by governments can only be
18 equitably provided if no regard is taken for ability
19 to pay; whereas in respect of all other goods and
20 services, equity is presumably served if they are
21 charged for on the basis of benefits received.

22 Now, I have been rather long-winded.
23 It is a very double-barrelled question. I wonder
24 if you or your colleagues could comment on these
25 aspects of this general proposition that ability to
26 pay is the only equitable principle upon which
27 taxes could be based.

28 MR. MacDONALD: Your questions are very
29 clear and distinct. Mr. Bell will, of course,
30 deal with this.

MR. BELL: It is precisely because of
some of the arguments that you have made, Mr. Coyne,



1
2 that we were rather careful, at least I hope so, to
3 qualify our acceptance of this principle where we
4 indicate in paragraph 3 that it may not always be
5 practicable to implement the taxation policy based
6 on ability to pay. Obviously it is not.

7 For example, if tax policy or fiscal
8 ^{is} policy/used to thwart recession, to head off
9 recession, the use of that policy could very well
10 come into conflict with the whole principle of
11 ability to pay.

12 If, for example, it becomes necessary to
13 increase taxes in order to head off general inflation,
14 this may very well introduce a certain amount of
15 regressivity into the personal income tax, so
16 we are quite well aware of the difficulties of
17 always being consistent here.

18 What we are particularly apprehensive
19 about is the fact that there has been an increasing
20 tendency to use other than personal income tax,
21 as you have indicated in your remarks, for raising
22 government revenues. To be specific, we are
23 particularly concerned about the increasing
24 dependence upon general sales tax. General sales
25 tax is certainly not a progressive tax. It is
26 perhaps the least progressive or perhaps I should
27 say the most progressive of any of our tax systems.
28 At the same time we realize that general sales tax
29 is important.

30 In relation to that, we cannot dispense
with it if government revenues are -- or if sufficient



1
2 government revenues are to be raised in order to
3 finance government obligations because the sales tax
4 is such a remunerative tax, Because of the
5 increasing dependence upon sales tax we feel that
6 if possible, if it is at all practicable that sales
7 tax be made less regressive than it is today and
8 it is precisely for this reason that we have advocated
9 that the Commission look into the possibility of
10 replacing the present flat rate sales tax with a
11 system of variable rates.

12 I do not for one moment entertain the
13 idea of making our entire tax system on the personal
14 income tax. Obviously I do not see that it is at
15 all practicable.

16 THE CHAIRMAN: Mr. Coyne has asked his
17 questions really to the word "only", I think. The
18 only accepted principle.

19 MR. COYNE: I am also dealing with the
20 question of equity, Mr. Bell. I have your point
21 about it being necessary to take a practical view
22 of these things but perhaps I have read too
23 dogmatically an inference into this single sentence
24 in paragraph 3 where you speak of the ability to pay
25 is the only accepted principle if equity is to be
26 the basis of the tax structure; but I wonder if
27 you intended to express the view that this was
28 some sort of universal axiom that should be pursued
29 if it is conceivable that the sort of services
30 which are now being paid for by the pound or by
the cubic foot or what have you should or could



1
2 theoretically be put on an ability to pay basis.
3 Even this provision of water could be paid for
4 out of the general tax revenues and the cost of it
5 charged to the general revenue. Would that be
6 more equitable? Is this what you are suggesting?
7 Is it fair to read that sort of thing into the
8 statement?

9 MR.BELL: No, this would be carrying it
10 too far. It simply would not be practicable to
11 carry this principle that far. That is why we
12 preceded this by saying within the limits imposed by
13 necessity.

14 In other words, we are interested in
15 making this progressive taxation as simple as
16 possible. At the same time we realize that certain
17 practicable considerations make it impossible to
18 have a tax system based on complete progressivity,
19 whatever complete progressivity may mean.

20 THE CHAIRMAN: That is what I was going
21 to ask. What is "complete progressivity"?

22 MR. BELL: That is carrying it to the
23 absolute. Obviously that is not possible.

24 THE CHAIRMAN: I suppose it would
25 be simply saying that all income beyond a certain
26 amount should be turned over to the Crown. Would
27 that not be complete progressivity?

28 MR. BELL: Well, I think what we have
29 in mind here is that the most progressive tax
30 policy or a tax instrument, I should say, which
is most progressive is the personal income tax.



1
2 That is a more progressive tax than, for example,
3 a corporation tax because as Mr. Coyne implied,
4 corporation tax -- I don't think he mentioned
5 specifically corporation tax -- corporation tax is a
6 relatively proportional tax. Sales tax is a
7 proportional tax. Most of our taxes, as Mr. Coyne
8 referred, are of the proportional nature rather
9 than the progressive nature.

10 The progressive principle simply under-
11 lines the personal income tax because the marginal
12 tax rates go up as taxable income increases. Now,
13 this is apart altogether from whether our present
14 personal income tax is as progressive as it may be.
15 We realize, at the same time, because of practicable
16 necessity, it is not possible to collect all
17 government moneys by this means.

18 THE CHAIRMAN: Excuse me for interrupting,
19 Mr. Coyne. I think you are probably going to
20 ask Mr. Bell what the limits are as to progressivity.

21 MR. COYNE: I had one or two questions.
22 Perhaps they are leading into that subject otherwise,
23 please advance it.

24 I take it really from what you say that
25 if one looks at the practicable necessities of
26 government finances, it is not practicable to
27 collect all government revenue through the device
28 of progressive taxes. You admit that and I presume
29 that then it is a matter of balance in relation
30 to the practical requirements as to what proportion
of taxes, of over-all taxes could be raised by a
progressive basis and what proportion by proportional



1
2 basis. Is that a fair statement?

3 MR. BELL: Yes, that is with one
4 qualification.

5 MR. COYNE: I think I am correcting in
6 pointing out that a relatively small proportion of
7 our present taxes or even a smaller proportion
8 historically would then in fact be raised by
9 progressive taxes.

10 MR. BELL: Yes, that is a fair
11 assumption with this one qualification that other
12 taxes, particularly sales taxes, which are pretty
13 regressive taxes, although we recognize its need,
14 if it is possible to make it less regressive, of
15 course, this would fit into our general principle
16 here. This is why we have suggested that the
17 Commission look into the possibility of introducing
18 variable tax rates.

19 MR. COYNE: Quite so. This is a very
20 interesting suggestion because you are dealing
21 substantially with sales tax. I think what led me
22 to ask you some of these things was the fact that
23 you hinge the principle of ability to pay so
24 absolutely to equity. What you say in the brief
25 is not so much for practical considerations. You
26 do say that practical considerations make it
27 impossible to follow this principle but if one
28 takes account of these practical aspects, is one
29 necessarily imposing an unequitable system of
30 taxation and if so; admitting it would be
theoretically possible to raise all government



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2 revenue on a progressive basis at all levels, would
3 you have any suggestions to make or are you intending
4 to make any suggestion as to the limits in the
5 pursuit of equity to these progressive features of
6 taxation? It is hinged to equity. That puzzled me
7 a bit because of a necessary implication that four-
8 fifths of our taxes are inequitable.

9 MR. BELL: The only limitation, I think,
10 that we would place on the implementation of a tax
11 policy of equity would be if it were interfering with
12 the economic expansion and economic growth.

13 The suggestion, of course, has been made,
14 undoubtedly you have heard it very frequently during
15 the past year or more, that certain marginal tax
16 rates, personal income tax rates are interfering with
17 the economic growth, impeding the economic growth and
18 corporation tax is too high and therefore impeding
19 economic growth.

20 If that can be proven then, of course,
21 I personally would favour giving this matter top
22 priority. I do not want to get into this matter now
23 because I suspect we will be probably getting into
24 this area a little later on but unless there is a
25 conflict here then the question of equity is one
26 that should be given very top priority.
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1 MR. COYNE: Yes but it is actually only
2 available through ability to pay. That is what it
3 really boils down to and what I think you are saving
4 here.

5 MR. BELL: Yes.

6 MR. COYNE: I do not think we can pursue
7 this discussion too long, but I take it that you
8 are talking in terms of a balance, an appropriate
9 balance between those taxes which can be arranged
10 on the progressive principle and those taxes which,
11 by their very nature, cannot. You are not really
12 suggesting that we can or should eliminate those
13 taxes which cannot by their nature ---

14 MR. BELL: No, we are simply suggesting
15 that if possible they be made more progressive or
16 less progressive.

17 MR. COYNE: It is really a note of
18 caution, and one should not read too dogmatically
19 a significance into this general principle you
20 have put forward.

21 MR. BELL: That is right.

22 THE CHAIRMAN: It would seem to me that
23 there might be some government services which would
24 be inequitably distributed on an ability to pay
25 basis.

26 Take such a service as local garbage col-
27 lection, a service in which it is pretty clear to
28 see what happens. Instead of each and every one
29 in the community looking after their own refuse,
30 they decided to pool that. Is that cost fairly
borne on an ability to pay basis? I would not
think so.

MR. BELL: No. There are certain
services, and I think they are very limited, and of



1 a very local nature, that certainly cannot be
2 financed this way.

3 The benefit principle, to which we make
4 reference here, certainly has to be applied in
5 certain instances at the local level.

6 Our point is that the benefit principle
7 is impracticable with regard to applying it to
8 most government or public services and, secondly,
9 that the benefit principle is also inequitable if
10 applied to most government services. There are
11 unquestionably certain local services to which
12 the benefit principle applies and, I think, will
13 have to continue to apply.

14 THE CHAIRMAN: It may be that as we go
15 on we should put stress not only on local services
16 in that regard, but national services too, but I
17 do not think we should do that now because we will
18 come to them as we proceed.

19 MR. COYNE: ^{There} /is one general aspect of
20 this, and perhaps it might be convenient to ask
21 it here on very general terms.

22 I have just forgotten whether this is
23 in the earlier part of the brief or perhaps a little
24 further on, but the general statement that social
25 security -- just taking it in the large as a
26 general statement -- is a sphere in which the
27 benefit principle should have no application, and
28 in which ability to pay should be the deciding
29 principle.

30 Bearing in mind what we have just been
speaking about, let me put this to you: why is
it that in relation to social security -- and I
make a distinction between social security schemes



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2 and social welfare schemes in the sense that I
3 am not talking merely of conditions where society
4 has to look after the indigents or those who are
5 not able to look after their own welfare, but I
6 am speaking of what is generally known as social
7 security -- why would it be more inequitable in
8 what is obviously a growing sphere of government
9 interest to finance social security by the insurance
method, which is really a benefit principle?

10 THE CHAIRMAN: So far as people are
11 capable of paying for it.

12 MR. COYNE: Yes, Mr. Chairman. I am
13 leaving aside those people who are certainly not
14 able to pay for their own and who have to be
supported.

15 THE CHAIRMAN: Accepting them as a
16 public charge?

17 MR. COYNE: Accepting them as a public
18 charge. The word which comes to my mind, although
19 it has unpleasant connotations, is "indigents".
20 People in that category have to be looked after
21 by society generally, but I am speaking of others
22 who are able on an insurance basis to provide for
their own social security under government auspices.

23 MR. ANDRAS: Probably the largest scheme
24 is unemployment insurance; there are over four
25 million workers covered. Under that scheme there
26 is a contribution rate and it is a flat rate, what
27 Mr. Bell called "proportional". The contribution
28 rate is approximately 1.2 per cent for earning
29 classes. This would seem rather counter to our
30 proposition here, but of course it is not



1
2 incumbent upon us here to criticize the Unemployment
3 Insurance Act. We merely have to live with it.
4 However, there are offsetting factors; the benefit
5 is not directly proportional. In the lower
6 benefit classes, the ratio of benefits is somewhat
7 higher than in the upper insurance classes, so
8 that a claimant who had been earning, say
9 \$25 a week gets a larger percentage of his previous
10 earnings, when he gets benefit, than one who gets
11 \$60 or \$70 a week. Even though there is
12 technically a proportionate contribution rate,
13 there is an element of cross-subsidy. It so
14 happens that those in the top insurance classes
15 are overpaying, in a sense, relative to the type
16 of benefits they receive. This advances the
17 benefit of the lower income class. Merely to
18 look at the proportionate rate is not to look at
19 the whole picture.

18 MR. COYNE: I suppose in a sense the
19 same can be said about the old age security.

20 MR. ANDRAS: Conceivably, if and when
21 the act comes in, it may contain cross-subsidy,
22 or a different relationship to past earnings,
23 depending upon the beneficiary.

24 MR. COYNE: Even today under the existing
25 old age security, there is a progressive feature
26 to the rate, if you like, up to the income at
27 which the ceiling applies.

27 MR. ANDRAS: The \$3,000 ceiling, yes.

28 MR. COYNE: So the people at the ceiling
29 and above are contributing something in a sense
30 towards the pensions that will be drawn by the



1
2 lower income people who have contributed much less
3 to the fund?

4 MR. ANDRAS: Yes, but I think as Mr.
5 Bell pointed out and as the brief points out,
6 we consider the present structure to be regrettable
7 because of the cut-off point of \$3,000.

8 MR. COYNE: In the case of unemployment
9 insurance, is it inequitable or undesirable to
10 have unemployment insurance financed through
11 contributions in the way it is done now? Should
12 the cost of supplying unemployment benefit payments
13 be financed out of the general revenue on the
14 grounds that that would permit the application
15 of an ability to pay principle.

16 MR. ANDRAS: We have thought about that,
17 Mr. Coyne. This question was asked quite recently
18 in another appearance. Our answer at the time
19 was that we would prefer the present method of
20 financing to taking it out of general revenues,
21 because if it were taken out of general revenues,
22 without earmark contributions the tendency would
23 be to develop the flat rate benefit like our old
24 age security benefit, and we are persuaded to a
25 wage-related benefit. But conceivably it
26 certainly could be done. It could be possible,
27 both from an administrative and from a fiscal
28 point of view.

29 MR. COYNE: Would you recommend it?
30 That is my question. I think your answer is no.

MR. ANDRAS: Not as we look at it at
the present time. We are involved with the Gill
Committee recommendations, and this is a matter for



1
2 us to think about very carefully.

3 MR. COYNE: Thank you very much, Mr.
4 Andras.

5 Then if we could just turn over the page
6 to page 4 where you commenced your comments on the
7 personal income tax, you discuss the degree of
8 progress in the present tax structure and dispute
9 the assertion which has been made from time to time
10 that the present rates are too steeply progressive
11 at the higher income levels. Then you demonstrate,
12 by taking as your standard of measurement the
13 increase in marginal rates from one income bracket
14 to another, that rates are more steeply progressive
15 in that sense at the lower end of the income scale.
16 But what is not altogether clear, to me at least,
17 is whether you are satisfied or dissatisfied with
18 the present rate structure, and whether or not you
19 are recommending any changes. For example, just
20 using the type or standard of measurement which
21 you adopt, there are any number of ways in which
22 the curves could be varied. You could take the
23 percentage increases in marginal rates even from
24 \$1,000 to \$400,000 and have in this sense a
25 perfectly progressive tax. The only problem would
26 be that the man with an income of \$150,000 only
27 reaches a 6.7 marginal rate. You could go the
28 other way and take the percentage increase in rates
29 at the lower stem and extend those percentage
30 increases by increases of \$1,000 of taxable income,
and the only problem there is that you would reach
a marginal rate of 80 per cent at a taxable income
of \$9,000. These figures are rough figures



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2 according to my calculations.

3 Both of these examples, in the terms
4 in which you put it forward, would make this
5 tax a perfectly progressive tax, but the first
6 one would have a devastating effect on revenues.
7 The second one, I suspect, would have an equally
8 devastating effect on the economy.

9 Would you care to indicate whether you
10 feel that this structure should be changed, and
11 if so in what respect?

12 MR. BELL: No, our points here, Mr.
13 Coyne, is that the present structure, the margin
14 of tax rate structure, is comparatively good.

15 As a matter of fact, the reason for
16 going into this as much as we did was to rebut
17 some of the arguments which have been made by
18 those who believe that the present marginal rate
19 structure should be reformed, that higher marginal
20 rates should be reduced, and the argument we give
21 for this is that the high marginal rates have
22 been responsible for inhibiting economic growth,
23 or investment, which leads ^{to} the inhibition of
24 economic growth.

25 Our point here mainly is to point out
26 that the interpretations that have been based on
27 the present marginal rate structure are not quite
28 as accurate as they would appear to be on the
29 surface.

30 As far as the present marginal tax rate
structure is concerned, I do not see anything wrong
with it at all. It takes into account the
progressive principle.



1
2 I have to qualify that, of course, by
3 saying, as we point out here, that the lower income
4 brackets, owing very largely to the incorporation
5 of the old age security tax, are much less progressive
6 than they might otherwise have been.

7 MR. COYNE: Of course, it is fair to
8 do it either way but I was really approaching it
9 from the point of view of regarding those as
10 two separate taxes, and of course you deal with
11 the old age security tax separately. For the
12 purposes of our discussion, I think it may be more
13 useful to deal with them separately rather than
14 to regard the personal income tax as having
15 incorporated in it the old age security tax.

16 MR. BELL: The point that we try to make
17 here is that the upper marginal rates are not nearly
18 as progressive, not nearly as steeply progressive
19 as has often been alleged. On the contrary, the
20 upper marginal rates are very largely proportional
21 rates because they apply to very large increments
22 of taxable income. At the bottom of the income
23 tax scale this is not true because the rates go
24 up fairly steeply, and at the same time they apply
25 to much more slowly rising taxable income brackets.
26 This is a point that I do not think is very often
27 made.

28 MR. COYNE: And, as you pointed out,
29 your purpose is really to defend the existing structure.

30 I think in fairness, perhaps, it should
be said that at least some of these representations
which have been to the effect that some of the rates
are too steeply progressive at the higher income
levels, have been just that. I do not think anyone



1
2 has suggested that they have been more steeply
3 progressive than at the lower income level.

4 COMMISSIONER PERRY: A subject that
5 interests me as much as the slope of
6 the line is the point at which the line starts.
7 The schedule of rates, including security tax,
8 starts at 11 per cent. The United States bottom
9 bracket is 20 per cent -- they are in the process
10 of lowering this a little. The initial rate
11 and one or two rates above are the rates which
12 produce the mass of the revenue and which the
13 mass of the people pay. There are one or two
14 other points which determine the slope of the
15 line apart from the ultimate point. The point
16 at which the marginal rate of 50 per cent comes
17 into play is significant too.

18 Do you people have any views on (a) the
19 starting rate, and (b) the income at which the
20 state is taking half of the marginal income?

21 MR. BELL: I think, Dr. Perry, that
22 the first three marginal rates should be reduced
23 simply by making the old age security tax more
24 progressive. In other words, the old age
25 security tax burden should be distributed throughout
26 the income tax schedule in an equitable way, much
27 more equitable ---

28 COMMISSIONER PERRY: Let us leave it
29 out of the consideration for the meantime. I
30 would like to talk about the basic income tax
schedule. It goes from 11 per cent to 80 per
cent by a line which, as you demonstrate, is
rather a humped one. One way of making this



1
2 a more even progression would be to make the
3 bottom rate 20 per cent. This would straighten
4 out the line considerably. I suppose you would
5 argue that approach, though.

6 MR. BELL: This, of course, would be
7 an argument for a proportional tax rate.

8 COMMISSIONER PERRY: The marginal rates
9 would still go from 20 to 80 per cent, which is
10 not quite proportional.

11 I am just wondering if you have any
12 views on what value should be put on the rate
13 which the bulk of taxpayers pay, that is the
14 lowest rate and one or two rates above it?

15 MR. BELL: If you omit the present old age
16 security tax, the present marginal rates at the
17 bottom would appear to be consistent with the
18 principle of equity and also consistent with the
19 need of governments for revenues.
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2 But I make one qualification to that, because if
3 the tax base were not eroded, as I suspect it
4 has been eroded, by various tax evasions, it
5 might be possible to reduce the present tax
6 rate, not only at the bottom end of the income
7 tax scale but even at the top end of the income
8 tax scale.

9 This is a suggestion which we make
10 further on in the submission.

11 COMMISSIONER PERRY: We are not unaware
12 of that line of thought.

13 MR. BELL: We are very conscious
14 of the fact that governments have to have revenues,
15 and that is all there is to it. As you pointed
16 out, much of the government revenue is taken in
17 at the lower end of the income tax scale.

18 COMMISSIONER PERRY: For government
19 revenue purposes, you can really wipe out the
20 rest of the schedule. It is the first three or
21 four levels which produce the revenue. You think
22 they are high enough as they are now; is that
23 a fair assumption to make from what you have said?

24 MR. BELL: Yes. I certainly would
25 not want to see them increased at the lower income
26 scale.

27 COMMISSIONER PERRY: Thank you.

28 COMMISSIONER WALLS: You do appreciate
29 that at the lower wage levels we are considerably
30 under the rates employed in this respect

by either the United States or the United Kingdom.
In fact, on figures produced by the



1
2 research staff, if in 1961 we had collected on
3 salaries up to \$5,000 based on the American
4 tax structure, we would have collected slightly
5 over \$200 million more from people in these low
6 salary brackets than we did collect.

7 MR. BELL: The tax burden of the United
8 States government is considerably greater than ours,
9 primarily owing to the very huge defence program
10 they have, which I believe this fiscal year exceeds
11 \$50 billion. Consequently, I think this is a
12 very important factor that has to be taken into
13 account in making any comparison between tax rates
14 here and tax rates there.

15 I am not suggesting for one moment that
16 the tax rates in the United States are equitable
17 as they are presently arranged. I doubt very
18 much that they are, as a matter of fact.

19 COMMISSIONER WALLS: But do not you
20 try to equate wages in Canada with those in the
21 United States?

22 MR. BELL: No, not at all, because we
23 have always taken into account the difference in
24 productivity between Canadian workers and American
25 workers. As a matter of fact, we have been on
26 record and have produced material on this subject.

27 COMMISSIONER PERRY: I think I would
28 like to say, on Mr. Bell's behalf, that this is
29 where a tax by tax comparison between countries
30 can be misleading. The United States federal
government does not have a manufacturers' sales
tax of 11 per cent; therefore, it can afford,
without inequity, to have higher income tax brackets



1
2 at the lower levels.

3 MR. BELL: That is quite right.

4 COMMISSIONER GRANT: Can it not also
5 be said on your behalf that if wages are higher
6 in the United States, they can afford to pay more
7 tax, because they still have more money left to
8 take home after paying the tax?

9 MR. BELL: Yes, that may certainly be
10 true. As a matter of fact, let us take your
11 statement into account with the observation just
12 made by Dr. Perry, to the effect that there is
13 not a general sales tax in the United States
14 comparable to our federal sales tax. I do not
15 know that there would be that much difference in
16 the tax burden assumed by workers there and workers
17 here. Of course, there are certain states in the
18 United States that have a sales tax; but then, again,
19 we have provincial sales taxes in Canada, too.

20 THE CHAIRMAN: Mr. Coyne, you were in
21 the process of examining on this particular subject,
22 and you probably had not finished?

23 MR. COYNE: No, Mr. Chairman; but I
24 was going to go to page 8.

25 THE CHAIRMAN: Let me know when you have
26 finished with income taxes, because I have a few
27 questions to ask.

28 MR. COYNE: All right, Mr. Chairman.
29 Under the heading of "Personal Income Tax" the
30 Congress has dealt with several matters on page 8
which I was now going to deal with, including the
dividend tax credit.

THE CHAIRMAN: By all means.



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2 MR. COYNE: In paragraphs 19 and 20,
3 Mr. Bell, you deal with the dividend tax credit.
4 You make a suggestion that a 10 per cent rate of
5 dividend tax credit, which is what the rate was
6 prior to 1953, would be a better arrangement than
7 the 20 per cent that there is now.

8 I wonder if I could just ask you to
9 expand on that a little on the basis of this
10 proposition? The original concept of the dividend
11 tax credit was that it was designed to eliminate
12 the double taxation of corporate earnings. It
13 was originally introduced in 1949 at the level of
14 10 per cent at the same time that the corporation
15 tax rate was changed from a flat rate of 30 per
16 cent on all corporate income to a rate of 10 per
17 cent on the first \$10,000, and 33 per cent on the
18 excess.

19 When the corporation tax rates were raised
20 eventually in 1952 to 20 per cent and 50 per cent
21 from 10 per cent and 33 per cent -- there was an
22 intervening change -- the dividend tax credit was
23 raised to 20 per cent to keep step with that low
24 rate of corporate income tax on the first, it was
25 originally \$10,000, then \$20,000, \$25,000, \$30,000,
26 and now \$35,000 of corporate income.

27 It seems to me that if one accepts the
28 thesis that corporate income is taxed twice, once
29 in the hands of the corporation, and what is left
30 over in the hands of the shareholders, one might
argue that the dividend tax credit is too low to
eliminate this double taxation, and should be raised.



1
2 On the other hand, if one does not
3 ~~accept~~ the proposition that corporate income is taxed
4 twice, then I would think that the position would
5 be that there should not be any dividend tax credit
6 at all. I wonder if you could perhaps expand a
7 little on your reasoning as to why you think it
8 should be 10 per cent?

9 MR. BELL: We are trying to be very
10 reasonable about this, Mr. Coyne. First of all,
11 we have taken the position -- I am sure it is a
12 position that you yourself probably hold -- that
13 a corporation is a legal entity, something distinctly
14 apart from the shareholders. If you accept this
15 position, the whole question of double taxation takes
16 on, I think, a different complexion.

17 We have advocated in the past, as a
18 matter of fact, the actual elimination altogether
19 of the dividend tax credit, on this basis. I
20 suppose we were being more logical then than we
21 are now by advocating its reduction to 10 per cent.

22 MR. COYNE: Not necessarily more
23 logical, but perhaps more logical in the terms
24 of the proposition I have put to you. But there
25 must be other factors.

26 MR. BELL: As I understand it, the dividend
27 tax credit was introduced for the purpose, or one
28 of the purposes -- ostensibly, at least -- that
29 you have just mentioned, to act, since it applies
30 to the dividend income from Canadian taxpaying
corporations only, as an incentive to get Canadians
to invest in Canadian corporations.



1
2 As a matter of fact, in my discussions
3 with my colleagues on this particular point, I
4 wondered whether or not the dividend tax credit
5 has had this effect. I found it exceedingly
6 difficult, as a matter of fact, to get any
7 information on this, but presumably the Commission
8 has succeeded in obtaining such information.

9 If it has acted as an incentive in this
10 way, then there might be some argument for retaining
11 a certain percentage, and it seems to us that the
12 present 20 per cent is exceedingly high. After
13 all, it enables an individual to receive a
14 considerable portion of his income tax free, and
15 it seems to us it would be much more equitable
16 if the present rate was simply reduced to what
17 it was when it was introduced in 1949. We could
18 see no purpose in its being doubled in 1953.

19 MR. COYNE: But on the other hand, does
20 your view of what an appropriate rate should be
21 depend upon what in fact -- if one can determine
22 the facts -- the effect of the dividend tax credit
23 has been, or is likely to be, in investment terms?

24 I take it, from what you say, that you
25 pretty well discard the proposition of the double
26 taxation of corporate income?

27 MR. BELL: Yes.

28 MR. COYNE: But some dividend tax
29 credit may be justified on some more general
30 investment grounds?

MR. BELL: Yes.

MR. COYNE: Really, you are just saying
that you think 10 per cent would be better than



1
2 20 per cent. You are not relating that suggestion
3 to any studies which you have made as to what effect
4 it has had in this investment field, or would be
5 likely to have?

6 MR. BELL: No. At the time it was
7 increased, or doubled, in 1953 there seemed to
8 be no reason for it. As a matter of fact, no
9 valid reason was advanced at that time for
10 doubling the tax.

11 MR. COYNE: I think the reason
12 advanced was really that it was designed to
13 eliminate the double taxation of corporate earnings
14 in the hands of small businesses; that is, those
15 businesses earning up to, at that time, about
16 \$20,000, I think it was, and to equate, if you
17 like, the tax position of the smaller man who
18 incorporated with what his tax position would
19 be if he remained unincorporated.

20 I believe that was the basis upon which
21 it was put forward ten years ago.

22 THE CHAIRMAN: Mr. Coyne, may I
23 interrupt you to put to Mr. Bell the arguments
24 that we hear most frequently in favour of
25 retaining this 20 per cent tax and seeing if he
26 can knock those arguments down?

27 I think I understand Mr. Bell's reason
28 for suggesting 10 per cent rather than 20 per cent.
29 But there have generally been two arguments, I think,
30 put to us. One argument is that which has been
put forward, namely, to encourage Canadians to
invest in Canadian securities. Should the 20
per cent be reduced to 10 per cent, I would con-



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2 clude that the inducement would not be as much as
3 it is now. It is further suggested that Canadians
4 are still reluctant to buy equities, and the result
5 is that more of our businesses are being owned
6 abroad.

7 I cannot quote the figures to affirm
8 or deny that, but as far as I am aware that
9 condition still pertains. The double taxation of
10 corporate income without some release to the
11 shareholders is, I think, generally recognized
12 as being double taxation. It is true, as you
13 say, that the corporation is a separate being, and
14 it is argued, of course, that if the business is
15 placed within a corporate form, it is not altogether
16 fair to cause the owners of that business to pay
17 more taxes than if it were not in a corporate form.
18 It is not a fair price for the elimination of the
19 personal liability that obtains with regard to
20 corporations. That should be by way of a licence
21 fee, or something of that kind, but not by
22 corporation tax. If there is validity to that
23 argument, and if the income of a corporation does
24 not vary too much from that of a sole trader or
25 partnership, some attempt must be made to reduce
26 this double taxation.

27 I do not suppose anybody knows how much
28 the taxation is if one believes that some corporation
29 tax is passed on to the customers. There have been
30 studies made of this, and I suppose if one went
over all the studies you might come up with about
50 per cent going to the shareholders, or something
of that kind. We may have a better opinion in this



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2 regard by the time we are through with these hearings.
3 But let us assume that the average, from all we
4 know, is about 50 per cent.

5 On the basis that I put forward to you,
6 that it is 50 per cent, and the tax rate is 50 per
7 cent, I would have thought a 20 per cent rate
8 in this connection achieved equity as between the
9 business wrapped up in corporate form and the
10 business not wrapped up in corporate form. Do
11 you think that is fair?

12 MR. BELL: Could I answer the first
13 question that you raised, Mr. Chairman, with regard
14 to the inducement of this dividend tax credit?

15 THE CHAIRMAN: Yes.

16 MR. BELL: First of all, we are depending
17 on you for this. We would like to know whether
18 the dividend tax credit has really made a contribution
19 in this direction. Various articles have been
20 written by various people who have presumably gone
21 into this question to some degree.

22 From my reading of those articles I find
23 there is some controversy here, some contending it
24 is no inducement at all, and some contending that
25 there has been some inducement. But with regard
26 to your point that if 20 per cent has caused an
27 inducement, and if it were to be reduced by 50 per
28 cent back to the 10 per cent rate the inducement
29 presumably would be lessened, one can also argue
30 that if it has really been an effective inducement,
why not raise it to 30 per cent, 40 per cent, or
50 per cent?

It seems to us that the present rate is



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2 pretty excessive. If it is serving a useful pur-
3 pose, it should certainly be retained, but at a
4 reduced rate.

5 THE CHAIRMAN: You say, "but at a
6 reduced rate"?

7 MR. BELL: Yes, from the present 20
8 per cent level. In other words, the 10 per cent
9 rate at which it was originally introduced. With
10 regard to your second point, getting back again
11 to the double taxation question, again I stick to
12 the point I made before, that a corporation is a
13 legal entity; but at the same time there is a
14 possibility, as you have suggested, that a certain
15 amount of double taxation may arise. Again I
16 would want to know -- I am glad you raised this
17 matter of the shifting of corporate tax, because
18 we have referred to this -- just how much of the
19 corporate tax is shifted, because if it is shifted
20 to a considerable degree, then the whole question
21 of double taxation becomes a pretty academic one.
22 If it is shifted as much as you have suggested, as
23 a matter of fact, it seems to me this would lessen
24 the need for this dividend tax credit.

25 THE CHAIRMAN: In your statement; you
26 endeavour to put an onus, I think, on proof of the
27 fact that there is double taxation.

28 MR. BELL: Yes.

29 THE CHAIRMAN: Or proof of the benefits
30 of the dividend credits as far as investment is
concerned. I am not sure that is altogether
fair. You say that only upon proof should the
20 per cent be retained. I am not sure it is not



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2 fairer to say that only on proof should it be
3 changed. I do not think one can ever obtain
4 absolute, conclusive, final proof, but one can
5 get the best possible view of it, and we certainly
6 will do our best to come down on these things. But
7 I would be rather surprised if the matters we are
8 speaking of are capable of being resolved into
9 something which is absolutely black or white and
removes every shadow of doubt.

10 MR. BELL: I appreciate that. I
11 would like to make one other comment here, Mr.
12 Chairman, because it is a point that is not too
13 often made. We are talking about the shifting of
14 the corporate tax, and it is usually assumed that
15 means passing it on to the consumers in the form
16 of higher prices. But it could also take the
17 form of passing part of the burden on to the
workers themselves ---

18 THE CHAIRMAN: I mentioned that in
19 passing.

20 MR. BELL: I am sorry. And to the
21 extent that it results in withholding wage increases,
22 one might argue that some kind of dividend tax
credit should be given to the workers.

23 COMMISSIONER PERRY: This "double
24 taxation" expression has fired up this whole issue
25 quite a bit. Even if the tax were not completely
26 shifted, you could still argue that it is a peculiarly
27 heavy form of sales tax on business carried on in
28 a particular form, and in order to encourage people
29 to be willing to put capital into an industry, or
30 any kind of business organization subject to that



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2 very heavy form of sales tax, some extra consideration
3 is required.
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3 We have not had any witness put this argument to
4 us yet, but I think you do have to stand back a
5 bit and make sure you are not really penalizing
6 a business activity which is quite important to
7 the whole economy simply because of the form
8 in which it is carried on.

9 THE CHAIRMAN: I think we will proceed.

10 COMMISSIONER GRANT: May I just say
11 that in so far as the dividend of tax credit is
12 concerned as an inducement to people to buy stocks
13 rather than bonds -- I cannot give evidence, but
14 I can express an opinion, that I think that it
15 has quite an effect, Mr. Bell, because of the
16 fact that stocks, listed stocks are available
17 to Canadians and to Canadian companies to the Stock
18 Exchange and are selling on the yield basis of
19 somewhere around say $3\frac{1}{2}$ per cent on the average;
20 whereas bonds are selling on the basis of 5 per
21 cent -- government bonds comparable to both. Let
22 us say the high class security type of bonds are
23 selling 5 per cent on Dominion bonds and $5\frac{1}{2}$ on
24 provincials and good municipal. Now, if the
25 investor puts money into these looking for an income
26 and yield, he is much better off to put it into
27 a fixed income type of security than put it in the
28 stocks because he is going to get $1\frac{1}{2}$ points
29 probably better yield.

30 Therefore, the tax credit is giving an
inducement and he will then support the common stock
perhaps in preference to the bond, and in that way he



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3 is creating a market for corporate securities, for
4 the equities in corporate securities in this
5 country and thereby is contributing, I think,
6 we are agreed, to the growth of the country.

7 MR. BELL: At the same time, I think we
8 perhaps agree that some of our people who are more
9 investment conscious than myself might suggest this
10 also leads to certain rigidities in the capital
11 market which from their point of view may not be
12 at all desirable.

13 COMMISSIONER GRANT: I suppose you could
14 apply that argument that by going into equities
15 you thereby create a scarcity for them, but on the
16 other hand if there is a market I think there is
17 a much better chance for more to be made available.

18 THE CHAIRMAN: Yes, Mr. Coyne.

19 MR. COYNE: Thank you, Mr. Chairman.
20 I wonder, Mr. Bell, if we could just go on. I am
21 looking at page 8, paragraph 21, and there are one
22 or two matters here that perhaps you could clarify.
23 You refer to various loopholes, which is a common
24 phrase in representations to the Commission, and
25 the erosion of the tax base which does result in
26 the possibilities which you mentioned earlier where
27 loopholes, perhaps, of the tax rate could be reduced.
28 Then you say: "We believe that it would be desirable,
29 for example, to determine to what extent business
30 expense accounts and perquisites may have become a
means of evading income tax."

For purposes of clarification, the sense
in which we usually hear of the loopholes used is



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3 in the sense of statutory loopholes.

4 MR. BELL: Yes.

5 MR. COYNE: That is provisions of the
6 statutes which permit you to receive income in
7 some peculiar, devious way without paying tax on
8 it, whereas if you received it in some other more
9 normal way, you would pay taxes.

10 On the other hand there is an invasion
11 of taxes under the existing statutes, for example,
12 where a business pays the personal expenses for
13 an employee and then deducts that expense as a
14 business expense without the employee at the same
15 time including it in his own income.

16 I am wondering whether you could expand
17 at all on the thoughts in this paragraph because
18 I am not sure whether you are speaking of one
19 type of loophole or the other type of loophole.

20 MR. BELL: As a matter of fact, I think
21 we can clarify it very simply, Mr. Coyne. The
22 mistake was of our not putting this into two separate
23 paragraphs. If we had begun a new paragraph begin-
24 ning with "We believe it would be desirable, for
25 example, to determine to what extent business
26 expense accounts"-- etc., because we certainly had
27 in mind that loopholes are statutory loopholes, and
28 the second kind of thing we have here is not.

29 MR. COYNE: Have you any particular
30 loopholes in mind? Are there any particular
aspects of the statute -- I think we are speaking
primarily of the Income Tax Act, to which you would
direct our attention in this connection, or is it



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3 more of a general type of comment?

4 MR. BELL: No, it is a general comment
5 here. The assumption seems to be very widely held
6 that there are loopholes by which those whose
7 incomes, taxable incomes are subject to the higher
8 marginal rates are able to evade paying those
9 higher marginal rates.

10 For example, I think it is well known --
11 I cannot document this -- I think it is well known
12 that nobody pays the top marginal rates in Canada.
13 I say nobody and I mean nobody. Nobody, for
14 example, pays the 80 per cent marginal rate or
15 the 75 per cent marginal rate. We have no way
16 of documenting this. It is impossible for us
17 to document it, but everyone seems to believe
18 anyhow that these top marginal rates are not paid
19 by anyone in Canada even though their taxable incomes
20 may very well reach as high as \$225,000.

21 MR. COYNE: Yes. I do not know this,
22 of course. Are you suggesting that there is
23 evasion being practised or that there are certain
24 provisions in the statutes reducing the rates of
25 taxes which you think should be eliminated?

26 MR. BELL: This is what we would like
27 to get at. It is probably a combination of the
28 two, as a matter of fact, the legal loopholes as
29 well as tax evasion practised by individuals on
30 these higher income levels.

COMMISSIONER PERRY: As long as you
leave this 10 per cent dividend tax credit, it
is not likely anyone would pay top marginal rates.



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3 MR. BELL: That is true. That is another
4 point we make in the submission that the dividend
5 tax credit does naturally have an effect at
6 the upper income levels so the upper marginal
7 rates would not be paid anyhow because of the
8 dividend tax credit; apart altogether from
9 whatever legal loopholes there may be or other
means of tax evasion.

10 MR. COYNE: Of course, there are a
11 number of provisions in the Income Tax Act at
12 the moment providing for lower rates of taxes
13 on certain types of benefits and distributions.
14 This would apply if these benefits were simply
15 added to the top of a man's income and taxed
16 at the top marginal rate, but are you making
any specific recommendation to any of these?

17 MR. BELL: No, we are depending on you,
18 as a matter of fact, and your careful research
19 and inquiry into this matter.

20 THE CHAIRMAN: There are a few questions
21 I would like to ask about the high rate of taxes.

22 MR. COYNE: I have only one or two more
23 questions then I will be finished with this section.

24 On the question of improper use of
25 business expense accounts, which is in the same
26 category really as a taxpayer failing to report
27 his income in his return and getting away with
28 it, do you feel there should be an extension of
29 the enforcement procedures that the National
30 Revenue Administrator has available?



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3 MR. BELL: Yes, I think so. They have
4 done this in the United States to some extent.
5 I do not know how successful they have been.
6 I do not suggest for one moment that business
7 expense accounts are carried on excessively here
8 as in the United States, but undoubtedly there
9 would be certain scope for careful inquiry into
10 this; not only into how much revenue, for example,
11 is not going in as a result of excessive business
12 expense accounts, but also to determine how it
13 would be feasible to make sure that business
14 expense accounts were reduced from their present
15 size.

16 MR. COYNE: Of course, there is always
17 the question of whether or not an expense is of
18 a business nature. It is possible by legislation
19 to provide that certain expenses are not of a
20 business nature if the court has held otherwise.

21 It is this point that you mention in
22 this paragraph when you say "It would also be
23 worthwhile, in our opinion, to determine to what
24 extent stock options contribute to tax evasion",
25 and this has puzzled me a little bit because as
26 you know there is provision in the Act which
27 provides quite a special rate to apply to benefits
28 received by employees by way of stock options
29 from their employers. Here, are you criticizing
30 that provision?

MR. BELL: Yes.

MR. COYNE: And recommending its
repeal?



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3 MR. BELL: Yes.

4 MR. COYNE: Or are you suggesting that
5 there is some reason of some kind within the
6 statute?

7 MR. BELL: No. Our feeling is that
8 the present practice of giving stock options
9 contributes to the erosion of the tax base and
10 we are concerned with the erosion of the income
11 tax base because we want to make personal income
12 tax as progressive as possible. To the extent
13 it has eroded, it means that those in the lower
14 income brackets have not got the opportunity of
15 receiving stock options, or who have not extensive
16 business accounts, must assume the burden, an
17 extra burden that those in the upper income
18 brackets as a result of the opportunities that
19 are granted to them in the upper income brackets
20 do not.

21 MR. COYNE: The brief does not say so.
22 Are you recommending the elimination of any type
23 of special treatment of so-called stock option
24 benefits, or are you recommending some changes.
25 There have been many recommendations received
26 on both effects. I think some say it should
27 be eliminated and some thought it should be
28 modified in specific respects and restricted.

29 MR. BELL: What we would like to see
30 is a complete study done on this particular aspect
because there has not been one done to my knowledge,
so we would like to see a very careful inquiry



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3 into this to see just to what extent stock options
4 are responsible for eroding the income tax base.
5 If they are making significant contribution to
6 the erosion of the income tax base, then we would
7 certainly like to see considerable modification.

8 MR. COYNE: In other words, you are
9 really putting this forward in much the same way
10 as one or two of the other points we spoke of.
11 This is something that should be investigated and
12 any benefits which flow from it, if there are
13 such, should be determined as justification for
14 any special treatment.

15 MR. BELL: Absolutely, because I do
16 not think that enough is known about this subject
17 to make any specific recommendations.

18 COMMISSIONER PERRY: I was just going
19 to suggest also it would be the sort of thing
20 that would come into what becomes the first
21 paragraph of this section, rather than the place
22 where it is now found. In other words, your
23 first paragraph seems to deal more with statutory
24 provisions.

25 MR. BELL: That is right.

26 THE CHAIRMAN: There is an interesting
27 study, Mr. Bell, which you may have seen conducted
28 by U. S. Treasury in respect to their current
29 tax structure regarding stock options.

30 MR. BELL: I was not aware of that.

MR. COYNE: That concludes all the
questions I was going to ask on that question,
Mr. Chairman.



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3 THE CHAIRMAN: I would like to ask Mr.
4 Bell a question having regard to the high rate of
5 personal income tax. It has been represented to
6 us by some witnesses that the high rates of
7 personal income tax are scarcely a revenue measure
8 because they do not produce much income. Pre-
9 sumably there are not enough people involved
10 to achieve a reasonable contribution to the
11 Federal Treasury. That is the least argument
12 we have heard that the anti in sentiment, if you
13 like. It is pointed out that personal investment
14 comes from those people who have enough income
15 to save. If one takes all the income away from
16 the top bracket by high taxation, they would not
17 be able to invest. That is one reason for the
18 lack of sufficient purchases by Canadians of
19 equities. New benefit, of course, as you indicate,
20 requires the use of stock options to avoid taxation
21 of the high rates. One European country, at
22 the moment the name escapes me, but I think it
23 is Belgium, has a law which restricts taxation
24 to 50 per cent of one's income, not the marginal
25 rate but the average rate.

26 The marginal rate will be beyond 50 per
27 cent. Should we say shall not be more than 50
28 per cent. It seems to me that there may be
29 something for the argument that if they are not
30 making a contribution of any substance to the
Treasury, why should the rates go up as high as
they do; not that this is an argument against
productivity. The people who say this are still



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3 in favour of progressive taxes. It is simply to
4 say why carry it to the extreme. Many European
5 countries have adopted a rate at some rate lower
6 than we do. They will very frequently have a
7 top rate at 60, 65, or 70 per cent. Do you think
8 there is a good argument to maintain rates beyond,
say, 65 per cent?

9 MR. BELL: Well, Mr. Chairman, my first
10 observation is that the top marginal rates really
11 are more of academic interest than of real
12 importance.

13 You have already pointed out a number
14 of reasons why the top rates -- the dividend tax
15 credit was obviously one reason, and there are
16 various other things such as stock options, and
17 so forth, are other reasons why people in the
18 very high income brackets would not pay the top
marginal rates.

19 I am not at all concerned about what
20 they do at the top marginal rate unless, of
21 course, top marginal rates -- any reduction of
22 them resulted in any increase in the tax burden
23 on the lower income rates. Somebody put forth
24 the idea of having proportional taxes, taxes that
25 would be comparatively low to apply to taxable
income right across the board.

26 THE CHAIRMAN: May I interrupt at
27 this point? You are putting forth views which
28 happened once before not in a written submission --
29 it may have been in a written submission and I
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3 have overlooked it. Of course, it has been dis-
4 cussed frequently, but I do not think it has been
5 put forward very seriously.

6 MR. BELL: May I raise this question;
7 if the present amount of government revenues can
8 be raised while the top marginal rates are reduced,
9 and without at the same time shifting any of the
10 burden to the lower income brackets, if that is
11 possible then is not my suggestion that top
12 marginal rates really are of academic interest
rather than of any real importance correct?

13 THE CHAIRMAN: Thank you. That seems
14 reasonable to me. As a matter of fact, based
15 on the argument which I put forward to you, it
16 has yet to be verified, I might say, it is
17 pretty clear the top rates do not produce much
18 income. I think that you have answered my question.

19 This is a good time to break. I think
20 we will break for ten minutes.

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22 --- Short recess.
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2 THE CHAIRMAN: I think we might come to
3 order and proceed.

4 MR. COYNE: Mr. Bell, the next section
5 of the brief, starting on page 9, deals with the
6 old age security tax. We have already discussed
7 some aspects of this tax but I might put to you one
8 or two questions.

9 In paragraph 22 you say that the old age
10 security tax has very definitely made the income tax
11 much less progressive. You then refer to the
12 ceiling on the tax and you say that it means that a
13 person with \$3,000 taxable income pays the same old
14 age security tax as another with a taxable income
15 of \$6,000, or \$10,000 or \$25,000, and so on.

16 Does the fact that both of these persons --
17 that is the one with the \$3,000 taxable income and
18 the one with the higher taxable income -- if they
19 survive draw exactly the same pension?

20 MR. BELL: I think our answer is summed
21 up in paragraph 25 when we say that old age security
22 is a social benefit which is not the exclusive
23 privilege of those earning taxable incomes up to
24 \$3,000. We say:

25 "We believe that the cost of this and
26 all other social security programs
27 should be based on ability to pay."

28 This clearly contradicts the principle of
29 ability to pay.

30 MR. COYNE: Yes, but so do the methods
of financing unemployment insurance, hospital
insurance and, I would think, a number of other
existing social security programs. And I think the
proposed pension plan, with which I am not too



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2 familiar, could be criticized on the same basis.

3 What is it that makes the existing old
4 age security pension different from these other
5 schemes which are now provided by governments at
6 different levels and which are almost certain to
7 become more extensive in the future? Why do you take
8 a particular view with regard to this particular
9 type of security payment?

10 MR. BELL: Because it introduces a new
11 principle altogether. We do not finance education
12 in this way. As a matter of fact, this is getting
13 back perhaps more to the benefit principle. It is
14 really introducing the benefit principle despite the
15 fact that old age security, as we point out here,
16 is not the exclusive privilege of those earning
17 taxable incomes up to \$3,000.

18 MR. COYNE: It is not exclusively paid for
19 by those earning taxable incomes up to \$3,000.

20 MR. BELL: That is true, but at the same time
21 the burden or the largest proportion of the burden
22 is imposed at the very low income classes because
23 after you get past the first \$3,000 taxable income
24 there is no further tax.

25 MR. COYNE: I suppose we are getting back to
26 the subject we were discussing right at the beginning
27 of the morning. You could theoretically finance all
28 government services of every nature out of general
29 revenue. In fact, the vast majority of government
30 services, if you take the whole gamut at all levels,
we do not finance out of taxes which are based on
ability to pay. But again, it is not clear to me why
even within the field of social security as a whole



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2 you segregate the question of this old age pension
3 and say that this should be financed on the basis of
4 ability to pay. Hospital insurance is another one
5 which occurs to me. Perhaps you feel it should be
6 financed on the basis of ability to pay; I do not know.
7 It is not financed on that basis at the moment.

8 MR. BELL: The very nature of this service
9 lends it to be financed out of progressive income tax.
10 In some circumstances it is not practicable to do so,
11 but here it is clearly practicable to do so.

12 MR. COYNE: Is it not also practicable
13 within limits, because it is perfectly easy to
14 identify the beneficiaries? Is this not an example
15 which is consistently -- consistently with the way in
16 which other services are being paid for -- financed
17 on the benefit principle?

18 MR. BELL: This suggests that the
19 beneficiaries really stop at the \$3,000 tax level.

20 MR. COYNE: No, one could argue as to
21 where a ceiling should be but I would have thought
22 that the existence of the ceiling relates to the
23 fact that there is a ceiling on the amount of the
24 benefit, that the benefit is not related in any way
25 to income levels.

26 MR. BELL: You are suggesting that the
27 benefit received by the beneficiary in the lower
28 income brackets from the old age security is greater
29 relative to their income than is the case at the
30 upper income levels. This is your argument?

MR. COYNE: That really is what I was
suggesting.

MR. BELL: It seems that this introduces a



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2 very arbitrary distinction here because it suggests
3 that the beneficiaries of the old age security are
4 really at the very bottom end of the income tax
5 scale, and as you get a little higher up the income
6 tax scale that there are no direct benefits, that
7 those at the higher level do not receive any benefits,
8 but they do.

9 MR. COYNE: Additional benefits -- I am
10 speaking of this as \$900 a year after 70.

11 MR. BELL: It is true the benefits they
12 receive are not as important to them because presumably
13 at the age of retirement, because they have had a
14 higher income, they have other means and have been
15 able to accumulate more savings than those at the
16 lower income level. But if one accepts this argument,
17 then it seems to me that one throws out of the
18 window completely the whole reason for social
19 security programs. Social security programs are for
20 the purpose of benefiting those who need benefits,
21 and those benefits have to be paid by those who are
22 capable of paying.

23 MR. COYNE: At an earlier stage I was
24 trying to draw the distinction between what I would
25 call social welfare and social security; in other
26 words, admitting that there are certain aspects of
27 the welfare of those who are unable to provide for
28 themselves, which have to be provided for by society
29 as a whole.

30 MR. BELL: But is this not a matter of---

MR. COYNE: There are other things,
however, including pensions, hospitalization and



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2 unemployment, as far as those who are able to pay.
3 If you introduce what one might call an insurance
4 principle, the benefits can be adequately provided for.
5 In other words, these are not the people who cannot
6 afford to contribute to security. Of course, in
7 many many security programs they are wholly or largely
8 contributory. Why should not an old age pension?

9 MR. BELL: It is contributory.

10 MR. COYNE: I am sorry, I am thinking of
11 schemes that are contributory on the basis of
12 benefits received, if you like, rather than contributory
13 on a proportion or income basis.

14 MR. BELL: I do not think the benefit
15 principle can be applied in this case at all, any more
16 than I think the benefit principle can be applied
17 to the field of education or many of the other services
18 that are provided by senior governments particularly
19 by the federal government. Here is a case where
20 the beneficiaries may be anybody, and probably are
21 as a matter of fact. The beneficiaries do not just
22 stop at the \$3,000 taxable income level.

23 COMMISSIONER PERRY: Nor does the charge,
24 Mr. Bell. You seem to be implying that you get old
25 age pensions free at about \$3,000.

26 MR. BELL: But why should this be
27 proportional tax, Dr. Perry?

28 COMMISSIONER PERRY: You might make the
29 case that everyone should pay from \$3,000 and for
30 those below \$3,000 there has been a concession, if
you want to go to the other extreme.

MR. COYNE: Or, for that matter, I
suppose one could introduce some sort of means test,



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2 if you like, that would exclude these people who have
3 enjoyed higher incomes and presumably have -- or should
4 have if they have not -- provided for their old age
5 pension scheme.

6 MR. BELL: If you do that you undermine the
7 whole principle of social security. The principle of
8 social security is surely based in this country --
9 or perhaps I should say the financing of social
10 security is based on the principle that all will
11 contribute relative to their means.

12 THE CHAIRMAN: I think that is perhaps
13 part of the difficulty that we are running into.
14 I detect in what you say that if you put this social
15 security program on the basis of need, it would seem
16 to me that where there is a case of those in need
17 for those who cannot help themselves, that is a fair
18 charge on progressive taxation. For the life of me
19 I do not see why -- and you do not make a case as
20 far as I am concerned -- why a man wealthier than I
21 am should be required to contribute to my pension.
22 Certainly I can look after it myself.

23 MR. BELL: Following this reasoning,
24 Mr. Chairman, why should a bachelor contribute to the
25 education of other people's children? Are you
26 not arguing precisely the same line of reasoning?

27 THE CHAIRMAN: No, I do not think so at
28 all. I would think pensions for the aged were a
29 matter of reasonable welfare planning, a matter of
30 keeping our country in good condition and a matter of
economy, probably, in the final result. Whereas I
think education is building for the future and it would



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2 seem to me that we contribute to education because we
3 recognize that only through education can the future
4 of this country be expanded and grow. Therefore
5 I would have thought it was a fair charge throughout
6 on the national revenues. I draw a distinction.

7 MR. COYNE: That is well brought out
8 in the brief itself, Mr. Bell, in which you state
9 very clearly that educational matters have been
10 provided by the person who has no children to
educate.

11 MR. BELL: That is quite true, but at the
12 same time, education is benefited by the individual
13 child who is receiving that education.

14 If the benefit principle was applied
15 there are many young people who simply would not be
16 able to afford even primary education in this country.
17 They would not be able to afford it; it is as simple
18 as that. So even if education did not have these
19 indirect benefits for future society we would still
20 argue that education should be financed by a
progressive means rather than by the benefit principle.

21 COMMISSIONER PERRY: I think the Congress
22 is really posing quite a serious issue here.
23 Unfortunately, they are backing into it, or they have
24 taken a lion simply by one hair of its tail. I
25 would think as a general proposition you would concede
26 that it should be through the social security
27 measures that one achieves any economy distribution.
28 This is a fairly sound proposition. Yet, when you
29 come to the individual measures, you find most of them
30 are based on a flat charge or a system of charge in
accordance with ability to pay within the scheme itself.



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2 So I think you do have a real dilemma here between
3 philosophy and practice. You might almost say that
4 these measures are financed on sort of a pseudo insu-
5 rance basis and that the real income redistribution
6 goes on through other ways, through the use of income
7 tax to pay for ordinary government services.

8 It may be that the defence program is
9 bringing about more income redistribution in the way
10 of income tax than the social security measures. I
11 appreciate your dilemma, and I do not think you are
12 answering it. I do not think you are even facing up
13 to the main problem here, nor would you be expected
14 to do that when dealing with the matter of taxation.
15 But I suppose the insurance principle is appealing in
16 itself. It helps the politician make his case and
17 perhaps gives some protection for the soundness of any
18 of these ventures. Yet you could easily argue, as I
19 think you would be arguing in a broader way here, that
20 this is inconsistent with the larger purpose that is
21 involved.

22 I think all I have done is talk myself
23 into a very large question, to which I do not have
24 the answer, nor do you, I am quite sure.

25 MR. COYNE: Perhaps I might ask just one
26 final question on this section of your brief, Mr.
27 Bell. Taking the view that you do -- I think you
28 have indicated this quite clearly -- of the nature
29 of old age security and the general principle on
30 which it should be financed, why do you recommend
merely a proportional tax instead of a progressive
tax as a means of paying for it?

MR. BELL: For old age security?



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2 MR. COYNE: Yes. You say:

3 "In order to eliminate its regressive-
4 ness, we strongly recommend that the
5 ceiling be removed so that the burden
6 of this tax could be more progressively
7 distributed within the income tax
8 structure."

9 I take it from that you are still thinking
10 in terms of a flat rate of tax. It might not be as
11 high as four per cent --

12 MR. BELL: No; we are thinking in terms
13 of a graduated rate of tax.

14 MR. COYNE: I beg your pardon. What you
15 are really proposing, then, is that the separate old
16 age security tax be scrapped altogether and that the
17 old age security fund, to the extent that it is built
18 up by individuals, should be taken out of the personal
19 income tax?

20 MR. BELL: Yes.

21 MR. COYNE: That is perfectly clear, then.
22 Mr. Chairman, I was just going to turn the page.

23 THE CHAIRMAN: Very well.

24 MR. COYNE: In fact, I was going to turn
25 from here over to page 11, the section dealing with
26 corporation income tax.

27 THE CHAIRMAN: You are skipping paragraphs
28 26 and 27?

29 MR. COYNE: Yes.

30 THE CHAIRMAN: I do not think we have any
questions.

MR. COYNE: To some extent we touched



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2 indirectly on it.

3 THE CHAIRMAN: I think so.

4 MR. COYNE: And also paragraphs 28 and 29.
5 I just have one question arising out of paragraph 30
6 where you are dealing with a matter that we have dis-
7 cussed before, the question of whether and to what
8 extent corporation taxes are shifted either to con-
9 sumers or to employees, and therefore away from the
10 shareholders. You say, in this context:

11 "However, if it is assumed, as most
12 economists seem to, that part of the
13 corporation tax is shifted, and the
14 relation between tax rates and invest-
15 ment decisions is accordingly diminished."

16 You make this point, in support of your
17 suggestions, that to the extent that these corporation
18 taxes are shifted they do not assist investment de-
19 cisions, and therefore to argue from the level that
20 they do interfere with investment decisions loses its
21 validity.

22 I suppose you would agree that you can
23 switch it around the other way and say that to the
24 extent the corporation tax is shifted, it becomes a
25 tax on production and thereby becomes a disincentive
26 to demand, if you like, by increasing the cost of the
27 goods and the necessity to recover that cost in
28 prices. It seems like a rather vicious circle. If
29 the corporation taxes are not shifted, the high rates
30 have an adverse effect upon investment, and to the
extent that they are shifted, they have an effect upon
the expansion of consumer demand, which is the aspect



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2 of the economy that you are principally concerned with?

3 MR. BELL: That is, to the extent that the
4 corporation tax is shifted to consumers. This would
5 not apply if it is shifted to employees themselves.

6 MR. COYNE: Yes. I take it you would agree
7 that there are those two obverse sides of these
8 propositions?

9 MR. BELL: Yes.

10 COMMISSIONER PERRY: This would offset
11 demands, would it not? At least the form of the
12 shifting would offset demand, would it not?

13 MR. BELL: Yes, it could have that effect;
14 but I was thinking primarily here of the psychological
15 effect that the so-called high corporate tax rate seems
16 to have on some individuals when it comes to deter-
17 mining whether or not they should invest.

18 It seems to me that the psychological effect
19 would be much greater than the economic effects, which
20 are undoubtedly sound.

21 MR. COYNE: You make out a case based on
22 the historic aspects of this question, which lead you
23 to believe that the high corporate tax rates have not
24 had a serious disincentive effect as far as investment
25 is concerned?

26 MR. BELL: Yes.

27 MR. COYNE: But if one was concerned more
28 generally with the levels of corporation income tax
29 and the effect which, if they are high, high rates
30 of tax may have on the economy generally, they could
have very serious effects on different aspects of
the economy, depending upon the places upon which the



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2 actual incidence of the tax fell.

3 If it were demonstrated that corporation
4 taxes were shifted 100 per cent, one might take a
5 very different view, I suppose, of the desirability
6 of a high tax rate on corporate income than if it
7 were demonstrated that they were not shifted at all
8 and all of it was borne ultimately by the shareholders
of the corporation.

9 Turning the page again, the next aspect
10 which you take up -- this is really starting with
11 paragraph 33 -- is as to the effect which corporate
12 tax and other taxes may have upon the competitive
13 position of Canadian industry in relation to industry
14 in other countries and in international markets.

15 You quote quite extensively from the state-
16 ment of the Canadian Trade Committee, in which they
17 really summarized conclusions that they drew from Mr.
Robertson's study.

18 MR. BELL: That is right.

19 MR. COYNE: That is to the effect that
20 Canadian producers do not suffer disadvantages from
21 the nation's tax structure relative to their compe-
22 titors in other countries, particularly the United
States.

23 That leads me to this question. I think
24 it is implicit in this study and in the conclusions
25 drawn from it that we are considering not only the
26 present level and structure of taxation in Canada
27 but also the present level and structure of taxation
28 in other countries, particularly the United States
29 and the conclusion that we do not at the moment suffer
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2 any disadvantage is based upon the existing levels
3 and structures of taxation in the various countries.
4 My question, which you might comment on, is whether
5 there is, or may be, some relationship between both
6 the level and structure of taxation in this country
7 and the level and structure of taxation in other
8 countries with whom we compete both at home or abroad
and in international markets.

9 In other words, for example, if, as seems
10 quite possible, in the near future there was a signi-
11 ficant change in taxation in the United States, would
12 you take the view that we in Canada would have to take
13 account of this in relation to our own tax structures,
and perhaps make some changes of our own?

14 MR. BELL: Unfortunately, we might very well
15 have to do this, particularly with regard to the
16 United States, because of the very close economic
17 interdependence of the two countries. I would not go
18 so far as to say this would be necessary in the case
19 of European countries.

20 MR. COYNE: I suppose, in any event, it
21 would be relative to the degree of our relationship with
22 those countries. Picking up just one aspect of the
23 statement as it appears in the middle of page 13, after
24 reciting the general proposition the statement goes on
and says:

25 "It should be noted, however, that
26 particular firms and even whole
27 industries may experience handicaps
28 arising from the impact upon them
29 of specific tax arrangements".
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2 You do not pick that up particularly,
3 although over the page, in paragraph 35, you say:

4 "We are not adverse, however, to the
5 use of tax incentive programs to
6 encourage industry to rotate in
7 economically depressed regions."

8 Of course, there are at the moment, or there
9 have recently been introduced, incentives of this
10 general nature. Do you have any comments upon this
11 statement that particular firms and even whole indus-
12 tries may experience handicaps arising from the impact
upon them of specific tax arrangements?

13 Would your support of incentive schemes,
14 speaking very generally, extend beyond the sort of
15 depressed area incentives that we are talking about
16 on the next page, towards the alleviation of the sort
of circumstances that are referred to on page 13?

17 MR. BELL: Yes. There may be a clear case
18 for extending tax incentives to certain industries,
19 as is suggested in this particular statement. I was
20 present, as a matter of fact, when this was discussed
21 by the Trade Committee, and the reason this point was
22 made here was simply to suggest that there might be
23 certain, particular cases of hardship and if such
24 cases could be established then there might be a good
case for rendering tax relief.

25 But this was contrasted with the overall
26 tax structure that existed in Canada and, as the
27 statements point out, or the whole booklet points out,
28 if you compare the over-all tax structure in Canada
29 with the over-all tax structure that exists in the
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2 United States, Great Britain, France, Germany, Sweden,
3 Holland and so forth, we are not at a national disad-
4 vantage. But if there are particular cases, and
5 particular cases can be established, where they are
6 suffering hardships, and if this is a drag on the
7 economy, then there probably would be a very good case
8 for extending tax incentives.

9 MR. COYNE: You would prefer this rather
10 selective approach?

11 MR. BELL: Precisely.

12 MR. COYNE: This, of course, being a
13 different position from the position which has been
14 taken for many years, really, by some of the manu-
15 facturing interests, who are a little suspicious of
16 the selective approach and would much prefer a general
17 reduction in great rates applicable to everybody.

18 MR. BELL: We carry our selective approach,
19 of course, onto depressed areas, as suggested in
20 paragraph 35. I know there is a lot of question as to
21 how effective tax incentives used this way are, but
22 if they are effective in inducing industries to
23 establish in areas, for example, such as the Atlantic
24 provinces -- depressed areas in the Atlantic provinces
25 -- our policy has been to favour such tax incentives,
26 by all means.

27 MR. COYNE: One suggestion that has been
28 made to us in this connection is that there could be
29 some danger in this type of incentive, in this sense,
30 that it might encourage the establishment of industries
in areas where they were not and could never become
really economically viable; that the incentive would



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2 really have to be continued indefinitely and would
3 really, therefore, be a form of subsidy and, if subsi-
4 dy is necessary, why not grant it in a more direct
5 manner. Have you any comments on that?

6 MR. BELL: This is a danger. This is what
7 I had in mind, as a matter of fact.

8 MR. COYNE: It could be a real danger?

9 MR. BELL: Yes.

10 COMMISSIONER GRANT: Is that what is meant
11 by the expression "positively employed", or would you
12 enlarge upon that? That is in paragraph 35.

13 THE CHAIRMAN: We have not reached that
14 paragraph, have we?

15 MR. COYNE: Yes, Mr. Chairman, we are
16 there now. I took this to mean that if incentives
17 of this nature were determined to be effective in
18 drawing industry into these areas, the Congress would
19 be in favour of using incentives for that purpose.

20 But Mr. Bell also tended to agree with a
21 proposition that I think was put to us the other
22 day that there may be some danger in establishing,
23 under artificial circumstances, industries which are
24 not really viable and which will continue to require
25 subsidy, which in itself may or may not be a bad thing.

26 MR. BELL: This is a danger that has to be
27 very carefully taken into account.

28 MR. COYNE: I was going to pass on to page
29 14, Mr. Chairman.

30 THE CHAIRMAN: I am not sure that Mr. Grant
got an answer to his question.

COMMISSIONER GRANT: I am not clear on it



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2 myself, but I think I understand their over-all
3 thinking.

4 MR. COYNE: I am sorry, sir, I did not
5 mean to interrupt.

6 COMMISSIONER GRANT: All right. Thank you,
7 Mr. Chairman.

8 COMMISSIONER PERRY: I would like to refer
9 back to paragraph 32 in which you are discussing the
10 level of corporate profits. I think it would have to
11 be agreed that last year the volume of profits was the
12 largest ever, as you say; but I do not think this is
13 really saying very much, because the astonishing thing
14 to me has been that during a decade when the G.N.P.
15 must have increased something like 50 per cent, from
16 \$30 billion to \$45 billion, corporate profits have been
17 astonishingly stable; they have been roughly around
18 \$3 billion a year, give or take \$200 million or \$300
19 million.

20 I understand that the increase last year
21 was seven per cent or eight per cent. But even this
22 does not show the same degree of change that one would
23 expect with the kind of economy we have had in recent
24 years.

25 Have you any observation to make on that,
26 if my statistics are right, and I am a bit rusty on
27 this?

28 MR. BELL: The level of corporate profits
29 has risen, I think, more than you have suggested, if
30 you are measuring over the period of a decade. I have
not the figures with me.

COMMISSIONER PERRY: The \$3 billion figure



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goes a long, long way back.

MR. BELL: \$3 billion before taxes?

COMMISSIONER PERRY: Before taxes, yes.

This is the G.N.P figure, the National Council figure. On the basis of the corresponding increase in G.N.P. one would have thought that would have been over \$4 billion, perhaps by now; but I doubt if it is even approaching \$4 billion. I am not asking you to make a case for larger profits for corporations.



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3 COMMISSIONER PERRY: On the basis of
4 the corresponding increase in the G.N.P. one would
5 have thought they would be over the four billion
6 perhaps by now, but I doubt if they are even
7 approaching the four billion. I am not asking
8 you to make a case for larger profits by
9 corporations.

10 MR. BELL: It seems to me, again we
11 have not got the figures here, though that there
12 has been a considerable increase in the volume
13 of profits over the period you have mentioned,
14 over the decade of the fifties. It is quite
15 true in the late fifties profit margins declined
16 but that has perhaps nothing to do with the level
17 of corporate tax, as I am sure you will agree,
18 that had to do with the depression or --.

19 COMMISSIONER PERRY: I am thinking
20 of profits before taxes. Well, this probably
21 is not a very productive discussion, but I have
22 the feeling myself over quite a long period of
23 years the fluctuation has been around the three
24 billion aggregate and does not reflect a change
25 in the economic conditions certainly to the extent
26 I would have expected.

27 MR. BELL: I was under the impression
28 that corporate profits -- I am going on the basis
29 of memory now, corporate profits in the late
30 fifties before taxes were something like about
one billion, 1.8 billion, or something like that.
I am not sure.



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3 COMMISSIONER PERRY: Well, we can easily
4 look this up.

5 MR. COYNE: On page 14, paragraph 36,
6 which is a very brief reference to capital gain
7 tax, you say: "We believe that there is a strong
8 case supporting the principle of a capital gain
9 tax. We should like, therefore, to have a study
10 made to see how practical such a tax would be,
11 i.e. to determine what its revenue value would be
relative to the cost of administering it."

12 Is it fair to take from that statement
13 that you only recommend capital gains tax if
14 there was some significant net revenue to be
15 gained from it at the cost of collecting it?

16 MR. BELL: Well, I am answering personally
17 now, if as it has been suggested many times, I
18 do not know whether suggestion is valid or not if,
19 as it has been suggested many times, the difficulties
20 and the cost of administering the capital gains
21 tax would not be worth it relative to the revenues
22 resulting from it, then I see no purpose in having
capital gains tax implemented.

23 I think that there are other ways of
24 taxing capital gains by personal income tax, but
25 at the same time there are those who believe that
26 a capital gains tax is practicable and it would
27 be practicable relative to the cost of administering
28 it, and if this was so then there would be a case
29 for capital gains tax. To my knowledge we have
30 never had a study made of this question.



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3 THE CHAIRMAN: May I assure Mr. Bell
4 such study is being made. It will go beyond the
5 questions that you pose. It will be concerned,
6 of course, with not just the productivity of cost,
7 but the effect on the economy, the general fairness
8 of the tax, and I think at this time in view
9 of what you have said, there is little purpose
10 in going any further into this discussion unless
11 you have something further to add.

12 MR. COYNE: No. I just wanted to bring
13 out that point, Mr. Chairman, that it would serve
14 no purpose if it is not going to result in any
15 revenue.

16 MR. BELL: That is my personal opinion.

17 MR. COYNE: Really, I think that is
18 probably the inference from the statement in the
19 brief here.

20 THE CHAIRMAN: We have had representations
21 both ways on this principle. I have no idea as
22 to which evidence is the more powerful. We have
23 had it from all quarters, and I would say on
24 both sides of this question.

25 MR. COYNE: Well then, I think we will
26 deal with this other section on fiscal use of
27 personal income tax, and turning to paragraph 41
28 on page 15 you make the very interesting suggestion
29 that the federal government might be given dis-
30 cretionary power within carefully defined limits
to use income tax more effectively for fiscal
purposes which, I believe, has been done in recent



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3 years in Great Britain.

4 If there was a system of this nature which
5 I gather would really mean that taxes may be
6 reduced or may be altered more flexibly but not
7 simply every year when there might be an amending
8 Act by Parliament. I suppose the traditional
9 answer to that sort of suggestion when it is
10 made is that it would carry with it political
11 dangers that the incentive to abuse the power
12 for political or electorate purposes would be
13 too strong. Have you given any consideration
14 to that aspect of it?

15 MR. BELL: Yes. As a matter of fact,
16 some of my colleagues here raised the same point
17 when we discussed this among ourselves, but, it
18 seems to me that no government precisely because
19 it was aware of the political implications by the
20 use of this kind of power would abuse it. Pre-
21 cisely because it would know, surely, that any
22 abuse of this kind of delegated power would have
23 very unfortunate political repercussions in itself.

24 MR. COYNE: Perhaps it could use it
25 once and never again.

26 MR. BELL: As a matter of fact, I think
27 that the very opposite would be expected that a
28 government might very well hesitate the use of
29 such power; that this suggestion might not be
30 particularly effective because the government
might hesitate to use it simply because it feared
the political repercussions.



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3 MR. COYNE: In any event you seem
4 to be saying that in your view the benefits which
5 may be derived from such a method would outweigh
6 the possible disadvantages.

7 MR. BELL: Yes.

8 COMMISSIONER GRANT: On that point,
9 Mr. Coyne, would that not call for an amendment
10 to the British North American Act; that parliament
11 has the sole jurisdiction to impose taxes and
12 could parliament delegate that to the Governor-
in-Council?

13 MR. COYNE: That is a very interesting
14 question, Mr. Grant. I would hesitate to venture
15 any opinion.

16 THE CHAIRMAN: You may ask the lawyers
tomorrow.

17 MR. COYNE: It might well raise some
18 questions of a constitutional nature as to whether
19 parliament could properly delegate this sort of
20 power to the Governor-in-Council.

21 THE CHAIRMAN: The delegate power like
22 that would be more easily used to reduce taxes
23 than to increase them, I would think.

24 MR. BELL: Yes, except in an inflationary
period.

25 THE CHAIRMAN: I would think it would
26 be very hard for a Minister under our system of
27 Ministerial responsibility or the cabinet to take
28 on the chore of raising taxes during a period of
29 inflation without putting it to parliament for a vote.
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3 MR. BELL: But the federal government
4 has in the past, it is not quite the same thing,
5 imposed taxes or increased taxes on certain
6 consumer goods in order to check inflationary
7 pressures.

8 I am thinking particularly of the
9 early 1950's when certain taxes were placed on
10 washing machines and refrigerators and that sort
11 of thing in order to reduce consumer demand. That
12 was at a time when the government was launching
13 a very large scale defence program and there was
14 full employment in the country. Measures of this
15 kind must have been politically difficult to
16 impose, but nevertheless the economic circumstances
17 of the time clearly dictated that they should
18 be imposed.

19 THE CHAIRMAN: I am merely saying
20 that these changes of which you speak were done
21 by parliament.

22 MR. BELL: Yes, but the government of
23 the day had to accept the responsibility.

24 COMMISSIONER PERRY: This is the famous
25 rate speech of 1947. I would like to point out
26 the only known precedent of this is in the United
27 Kingdom where the power is limited to indirect
28 taxes up to commodity taxes. I do not know what
29 the reason was behind this. Your proposal is
30 strictly in terms of personal taxes.

MR. BELL: Yes, because personal taxes
used in this way can be more effective than any
of the other taxes. The very fact^{it} is comparatively



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3 a progressive tax lends itself to be used by more
4 effect as a fiscal instrument than any of the
5 other taxes could be.

6 COMMISSIONER PERRY: I know one
7 argument for doing it in England with the commodity
8 tax rather than the income tax is that the time lag
9 is much higher. It takes two or three months
10 to adjust income tax deductions which is the
11 mechanism one would have to use, whereas a sales
12 tax change can be announced and go into effect
13 immediately and apply to articles being sold the
14 very next day.

15 COMMISSIONER GRANT: Taxation without
16 representation was the very basis of the founding
17 of responsible government, was it not, Mr. Bell?
18 Now, when we did not have representative govern-
19 ment we had taxes without representation. When
20 we got responsible government, we did away with
21 that and taxes were then imposed only by the
22 elected members. Now your suggestion is that
23 you are not asking that the parliament give
24 authority to the Governor-in-Council to impose
25 taxes, but to change the rate of taxes. That
26 is as far as you go.

27 MR. BELL: Only within certain very
28 narrow, specified limits, yes.

29 COMMISSIONER PERRY: The range is 10
30 per cent up or down, 10 per cent of existing rates.

MR. BELL: 10 per cent, not 10 percentage
points.



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3 My reply to your statement, Mr. Grant,
4 would be that economic conditions now are so
5 vastly different from what they were at the time
6 this power was conferred on the parliament. In
7 those days, of course, personal income tax did
8 not even exist, I do not think.

9 COMMISSIONER GRANT: No.

10 MR. BELL: The few taxes that existed
11 were therefore of a commodity nature. Our
12 economy has become so highly complex today that
13 this kind of economic power, I think, has to be
14 conferred or "not has to be conferred", but should
15 be conferred upon the government which has the
16 responsibility for certain regulatory economic
17 functions.

18 COMMISSIONER PERRY: It is a pretty
19 powerful precedent that the so-called mother of
20 parliament has been willing to surrender. It
21 is reduced to this extent.

22 MR. COYNE: Over the page on page 16
23 you get into a discussion of deficit financing
24 in which ---

25 MR. BELL: A statement of general
26 principle.

27 MR. COYNE: It is perfectly clear and
28 there is just one point you may be able to help
29 me out on and that is the distinction that you
30 draw between good deficits and bad deficits. In
paragraph 45 the second sentence you say:

"But these people make no distinction
between involuntary deficits and



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3 "properly planned deficits to boost
4 output and increase employment. Too
5 often we have gotten budget deficits
6 simply because government revenues
7 dropped as a result of a business
8 recession. This is obviously an
9 undesirable kind of deficit."

10 I would have thought that if we were in
11 a condition of business recession almost any kind
12 of deficit would be a good one. Perhaps you could
13 just clarify that.

14 MR. BELL: Sure. Our contention has
15 been that if there had been expansionary fiscal
16 policies implemented in the late 1950's that the
17 resulting deficits would have been temporary,
18 that the economy could have been or would have
19 been expanded, that unemployment could have been
20 kept to a very low minimum.

21 But what actually happened was that
22 since expansionary policies were not implemented,
23 to avert the recession, that we got this kind of
24 undesirable form of deficits, deficits which simply
25 because of the recession itself and the fact that
26 government revenues dropped back.

27 MR. COYNE: I would have thought that
28 and I have not got detailed information, that by
29 and large these recent deficits have been caused
30 more by an increase in expenditure and an increase
in transfer payments to other governments than
by a reduction in revenues.



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3 MR. BELL: When you say recently --

4 MR. COYNE: The last six or seven years.

5 MR. BELL: No. If you take the period
6 of 1957 through 1961, it seems to me that the
7 deficits that resulted -- most of the deficits
8 that resulted were simply because of a downturn
9 in the economy.

10 MR. COYNE: A falling off of revenue.

11 COMMISSIONER PERRY: There were very
12 considerable increases of transfer payments to
13 the provinces during this period, Mr. Bell. If
14 you eliminate the increase, you eliminate most
15 of the deficits.

16 MR. BELL: With the kind of low economic
17 growth rates we had in 1957, 1958, 1959, 1960 and
18 1961, as a matter of fact with the exception of
19 one of those years, 1959 where we had a real
20 economic growth rate of 3.5 per cent -- that was
21 not very high -- but in the case of the others,
22 it was something like 1.2 or 1.8 -- I have not
23 got the figures here with me. If the G.N.P.
24 had been increasing during those years at a normal
25 rate of 4 or 5 per cent, for example, surely the
26 deficits that the federal government incurred would
27 not have been incurred.

28 COMMISSIONER PERRY: I think I am inclined
29 to agree with counsel that a deficit is a deficit
30 and by its very nature an expansionary factor.

MR. COYNE: Is it not implicit in
what you are saying here that simply the deficits



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3 we did experience were not large enough to generate
4 an expansionary effect in demand which you feel
5 was desirable?

6 MR. BELL: That is right, yes.

7 MR. COYNE: At that time. They might
8 be eliminated at a later time as a result of that
9 expansion.

10 MR. BELL: That is right, exactly.

11 MR. COYNE: That is really what you
12 were saying.

13 MR. BELL: Yes.

14 COMMISSIONER PERRY: They were not
15 undesirable. They were as desirable as they
16 could have been.

17 MR. BELL: I will accept that.

18 MR. COYNE: Well, Mr. Chairman, I was
19 going to pass over the next page or two to the
20 section on General Sales Tax.

21 THE CHAIRMAN: I would like to take
22 a look at that point. They did not deal with
23 that to any extent here. We certainly must be
24 concerned with regard to the amount of unemployment
25 in the country because our Terms of Reference
26 directed us to the economic effects of taxation
27 and there is no more important one than this
28 matter.

29 Do you have any view or is there any
30 statement by the Congress as to the extent of
unemployment which is structural and which is not
likely to be cured without further training or re-



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3 training or greater education? You might recall
4 that the Senate Manpower Committee found to a
5 large extent our unemployment was structural.
6 There have been statements made since that that
7 may not be so and I do not know if there is any
8 authority for the statement. I would think you
9 have undoubtedly considered it a great deal.

10 MR. BELL: Yes. We have considered this
11 a good deal. I think I am right in saying, as
12 you have already stated, there was no authoritative
13 pronouncement on the proportional unemployment due
14 to lack of adequate demand or due to structural
15 difficulties.

16 This is something which I think at the
17 present time we lack sufficient knowledge.
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2 There are unquestionably, however, --
3 and this is very obvious -- many structural problems
4 and also regional problems, of course, which are
5 contributing to the present rate of unemployment.
6 It is my own personal view that the demand problem
7 has been reduced significantly over the past year
8 or so, and that structural difficulties are now
9 increasing relatively as a cause of unemployment.
10 I think this is an assessment that many would agree
11 with.

12 What we are concerned with, however, is
13 that the demand problem will not become what it
14 was, or what we think it was anyhow, in the late
15 1950's when our economic growth rates and when
16 the real increase in the gross national product
17 in this country, as I mentioned a few minutes ago,
18 were very, very low. If that should happen again,
19 it seems to me that the personal income tax should
20 be used much more effectively as a fiscal instru-
21 ment for the purpose of increasing consumer demand.
22 After all, consumer expenditures comprise
23 approximately two-thirds of the gross national
24 expenditure in our economy, and anything that
25 increases consumer demand is going to help.

26 THE CHAIRMAN: Perhaps you have replied
27 to this, but I do not think so. To the extent
28 that our unemployment is caused by lack of needed
29 skills, there is no purpose for increasing the
30 rate of growth to take that up, I would assume.
Perhaps that is too positive a statement, because
one area I think probably overlaps into the other,
to some extent. However, there must be a point



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2 in growth where it is not going to contribute
3 any further to employment, because there are not
4 people with the skills. I take it we are not
5 there yet.

6 MR. BELL: I would just like to make
7 this observation. In regard to your question, I
8 think our thesis that the growth problem has
9 contributed significantly to unemployment in the
10 years that we were discussing (1957-1961) has
11 been borne out, because in the past couple of years
12 we have had an upturn in growth, as you are well
13 aware, and there has been a significant reduction
14 in unemployment in this country.

15 Undoubtedly there were plenty other
16 structural difficulties inherent in our economy in
17 the 1957-1961 period which also contributed to
18 unemployment. But the fact of the matter is that
19 owing to the point that you yourself make, because
20 there is overlapping or interrelationship among
21 these, the structural difficulties perhaps became
22 more pronounced as a result of inadequate growth
23 in those years.

24 THE CHAIRMAN: Thank you very much. I
25 do not want to explore that any further.

26 MR. COYNE: If we could turn, Mr. Bell,
27 to the general sales tax section of your brief which
28 commences at the bottom of page 18, you recommend --
29 and I am speaking generally now of the paragraphs --
30 that an attempt be made to introduce some progressive
features into the sales tax by providing different
rates of tax on different types of goods. To a
very limited extent this is done now through the



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2 remaining special excise taxes, although the choice
3 today of the goods to bear those taxes may seem a
4 little bizarre.

5 Do you have in mind in this recommendation
6 that it would open up a significant source of the
7 increased revenue which will undoubtedly be
8 required, or are you thinking merely in terms
9 of redistributing the existing tax burden?

10 MR. BELL: Both, actually. As we say
11 here in our submission, I think it is probably
12 a fair assumption to make that government tax
13 revenues are going to increase; they are going to
14 go on increasing as the public needs arise. This
15 has been the trend for a long time now and I see
16 no reason why this trend will be arrested. The
17 governments will probably continue to rely
18 increasingly on the commodity taxes, particularly
19 the general sales tax. This is our primary reason,
20 as a matter of fact, for advocating that the sales
21 tax be made less progressive than it is at the
22 present time, because if governments are going
23 to continue to raise more and more revenue in this
24 way, then obviously the burden is going to fall
25 on those least able to pay.

26 MR. COYNE: Really you are accepting the
27 inevitable as far as the increased dependence on
28 this form of tax is concerned, but you are suggesting
29 that these regressive features be alleviated to
30 some extent in this way.

MR. BELL: Yes.

MR. COYNE: I am sure it would not be an
easy task, although I think there are some countries---



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2 MR. BELL: And I think Dr. Perry brings
3 this out in his book on taxation, that at the
4 early part of the century there were variable
5 sales taxes introduced in this country.

6 MR. COYNE: Turning to a somewhat
7 different aspect of it, appearing on page 20 in
8 paragraph 57 you say that at the present time
9 the sales tax is undoubtedly imposing a sizeable
10 as well as an inequitable burden on a not inconsider-
11 able number of Canadians who are earning insufficient
12 incomes to be much affected by the income tax.

13 I was wondering whether you had made
14 any studies to substantiate this. Otherwise, I
15 was disposed to question it along these lines. I
16 would have thought that the really lower income
17 people were very little affected by the sales
18 tax on the basis that most of their expenditures
19 are food, shelter, and perhaps a few services, none
20 of which are taxable. Of course, there would be
21 clothing and other things on which they would pay
22 tax but the proportion of a low income person's
23 income spent on taxable goods, I would have thought,
24 would be very low and that the burden of this would
25 be much heavier on the middle income groups, the
26 \$5,000 to \$10,000 groups, where the proportion of
27 their income on taxable goods would be much higher.
28 Do you have any comments?

29 MR. BELL: It is quite true that there
30 are important goods -- foodstuffs being a particular
group of which I think -- that are exempted from
the present general sales tax.

MR. COYNE: And all services.



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2 MR. BELL: And all services, of course.
3 But, at the same time, there are pretty important
4 and essential durable goods that are purchased even
5 by people in lower income brackets which do bear
6 sales tax, household furnishings and clothing, which
7 you have already mentioned. Since the sales
8 tax by the time it has pyramided to them may be
9 significantly higher than 11 per cent I would think --
10 and I have not seen a study made of this -- that the
11 amount they pay in sales tax would be considerably
12 more than they pay in personal income taxes.

13 MR. COYNE: You have not made any
14 specific studies along these lines?

15 MR. BELL: No. As a matter of fact,
16 there have not been many studies made of this. I
17 think one of the best studies made of this was by
18 a Professor Due. Professor Due has gone into this.
19 He indicated that at the lower income level the
20 sales tax was a relatively heavy burden, a much
21 heavier burden than at the middle income rate.

22 MR. COYNE: Then in the following
23 paragraph, paragraph 58, you express no opposition
24 to the tax that has recently been imposed on building
25 materials, and this leads me to ask a perfectly simple
26 question as to why there should not be a sales tax
27 on houses. We pay a sales tax on most other things
28 that we buy, other than food; we pay sales taxes on
29 boots and shoes, on automobiles, and on clothing. Why
30 should there not be, in your view, a sales tax on
houses, particularly when at the present time it is
a very favourable rate of tax because it is only
imposed on materials; I think it has been said to be



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2 a rate of 5 or 5½ per cent.

3 MR. BELL: And it will be graduated
4 upwards.

5 MR. COYNE: No, I think the suggestion
6 has been made that when the full 11 per cent is
7 paid on building materials, which will be some time
8 in 1965, the effect of that tax on the total price
9 of a new house will be about 5 per cent, because
10 only the materials going into the house will be
11 subject to the tax.

12 What is the philosophy, what is the
13 reasoning behind the proposition that among
14 important consumer durables houses should be
15 singled out for exemption from tax?

16 MR. BELL: I think there are probably
17 a couple of reasons. Our Secretary-Treasurer has
18 just reminded me that there are all kinds of people
19 who have great difficulty in obtaining decent
20 housing in this country. This is a very important
21 social problem. In addition to this important social
22 problem, there is an economic problem. This would
23 affect a very important industry in this country,
24 construction. Construction happens to be one of
25 the largest sources of employment.

26 MR. COYNE: I am asking these questions
27 merely in relation to what is admittedly a serious
28 problem throughout our taxation structure, and I
29 think you refer to it, the tendency to constantly
30 narrow the base upon which our taxes are imposed.

How important does an industry have to
be before it becomes entitled on some grounds of
principle to be exempt from these taxes? I think



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2 the automobile workers would say they were a pretty
3 important industry, and the clothing workers, and
4 the workers who make boots and shoes would say
5 they were important industries. What is the
6 reasoning which makes it equitable and desirable
7 to tax the products of their labour and yet to
8 exempt from the tax the manufacture of houses?

9 MR. BELL: I think housing probably falls
10 pretty well into the same category as clothing.
11 Clothing is exempt from sales tax for a very good
12 reason.

13 MR. COYNE: Clothing is not exempt from
14 federal taxes.

15 MR. BELL: I am sorry, I should have
16 said certain clothing such as children's clothing
17 is exempt from federal sales tax, and I think
18 for a very important reason.

19 COMMISSIONER PERRY: I think it is only
20 exempt under provincial taxation.

21 MR. BELL: Well, foodstuffs are exempt;
22 they are a good example. Foodstuffs are exempt
23 from the federal sales tax, and I think for obvious
24 social reasons. It seems to me that in so far
25 as housing is concerned, if it were possible -- and
26 I do not think it is possible -- to exempt low cost
27 housing from sales tax and put higher cost housing
28 under sales tax, I would certainly be in favour of
29 this, but I do not see how it could be done. I
30 think administratively this would be a very
difficult thing to do.

MR. COYNE: I suppose there are two rival
principles here. If you approach it from the point



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2 of view of the great importance of the construction
3 industry, it does not make any difference to them
4 whether they are building low cost housing or high
5 cost housing. On the other hand, if you base it
6 on the principle of relative social values, then
7 you could allow the lower cost construction to be
8 tax free, and impose a tax on the higher cost
9 structures. You do not say anything here about
10 the recently imposed tax on production machinery,
11 with which in a sense some construction expenditures
12 can be equated. For example, I have been talking
13 exclusively about houses because they are consumer
14 goods; on the other hand, a factory for the manu-
15 facture of automobiles is a production good in
16 the same way as is machinery and plant a production
17 good, the cost of which has to be recovered out of
18 the ultimate article, which itself bears a tax.
19 Does the Congress have any view on this, what is
20 alleged to be a pyramiding of tax on tax as a
21 result of the imposition of tax on the production
22 machinery?

23 MR. BELL: As a matter of fact, we opposed
24 the extension of this tax to machinery and equipment
25 at the time. We have not referred to this in
26 this paragraph, but we would regard the application
27 of sales tax to these goods just as undesirable as
28 to the construction materials.

29 MR. COYNE: We have been talking about
30 policies which would narrow the basis of this tax.
A number of suggestions have been made to the
Commission, usually coupled with shifting of the
tax from manufacturers to the retail level, that
in this day and age when production of goods is



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2 declining to the proportion of total output, the
3 sales tax should be extended to services as well
4 as goods. Does the Congress have any views on
5 this suggestion which has been discussed in a
6 number of quarters -- the extension of sales tax
7 services?

8 MR. BELL: My personal view is that
9 the sales tax will eventually be extended to
10 include services, because services happen to be
11 one of the very rapidly growing segments of our
12 economy, and if governments have to get more money,
13 and presumably they will, obviously services will
14 have to come under some sort of tax. There are
15 going to be difficulties in applying tax to
16 services that do not exist in applying tax to goods.

17 MR. COYNE: Administrative difficulties?

18 MR. BELL: Administrative difficulties
19 would, I think, be considerably greater. It is
20 not impossible, obviously, because some services
21 are already taxed by provincial taxes.

22 MR. COYNE: You said that you
23 anticipate that a tax of this nature will eventually
24 be imposed on services?

25 MR. BELL: That is my personal view.

26 MR. COYNE: Does the Congress take any
27 position with respect to the imposition of the tax
28 on services? Is there any positive view either
29 against it or for it?

30 MR. BELL: No, we have no policy on this.
This has not come under consideration yet.

THE CHAIRMAN: On the matter of taxing



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2 housing, I would have thought that there is a
3 better case for exempting clothing than housing.
4 Under normal conventions and the present scheme
5 of things, it seems to me that clothing is pretty
6 essential.
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2 I would have thought that this would have warranted
3 a higher level of exemption than does housing, if
4 that is a fair test; and it is one test. What is the
5 counter-argument for that? Is there one?

6 MR. BELL: Both these things are
7 essential. Food, clothing and shelter are the three
8 essentials to life, as we were always taught. The
9 difficulty with this is that there may be a very good
10 reason for exempting clothing under the general sales
11 tax, but of course the difficulty is to find the
12 alternative revenue that would be necessary if
13 clothing were exempt, because I am pretty certain that
14 the sales tax revenue from clothing must be pretty
15 considerable. In our proposal here that the sales
16 tax be made less regressive than it is we had in mind,
17 again, if it was possible, to apply a variable sales
18 tax to clothing, depending on the price of clothing.

19 THE CHAIRMAN: Following that argument,
20 I have a thought here. It is not my own thought;
21 it has come up in some discussion. Taxing food
22 might result in a more progressive form of tax, and
23 certainly I think it might add to the health of the
24 nation too. It seems to me there is a point up to
25 which -- to carry on your thoughts -- food should be
26 exempt, and beyond that as far as consumption,
27 because I dare say it should be taxed normally within
28 our needs.

29 Beyond a fair level of consumption I
30 would have thought it becomes an added luxury and
should be taxed as high as any luxury, with probably a



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2 very high excise tax. You may say that to administer
3 such a tax would be impossible. I am not at all sure
4 that is true. There has been a thought put forward
5 that everything should be taxed and then there should
6 be a remission of tax given to everyone. The
7 remission of tax would be the same to each individual.
8 It would be one amount, and the amount would be the
9 amount of tax which he is deemed to have spent on
10 necessities. That is, food up to a reasonable level,
11 clothing up to a reasonable level, housing up to a
12 reasonable level, and so on.

13 If you ask me, "How is that going to be
14 done?", I do not know the answer to that question.
15 It may not be easy to do, but it might be done through
16 welfare payments, through income tax remissions, or
17 a combination, or in some other way. Perhaps there
18 is an answer to that. I have not got the answer,
19 but it is a way, I would have thought, of taxing an
20 abnormal consumption of necessities where, that being
21 the case, those necessities had in fact become
22 luxuries.

23 It would seem to me that that might
24 in fact increase progressivity, though the immediate
25 reaction, I think, would be that it would do just the
26 opposite. It means that a man with a larger income,
27 spending a lot of money on food, would be taxed on
28 anything beyond the necessary part of it. What would
29 be your comment on such a plan as that, apart from
30 the administrative side of the question?

MR.BELL: I would like to ask you a



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2 question, Mr. Chairman. You refer to the quantity of
3 food consumed, and suggest that --

4 THE CHAIRMAN: Put it on the basis of
5 calories, if you like. I am very conscious of that
6 now.

7 MR. BELL: You suggest that over and
8 above what would be a reasonable amount of consumption
9 the excess should be taxed. This is a rather
10 interesting proposition that I have never heard before.
11 With regard to any consideration that I have personally
12 given to this, I have thought of it in terms, not
13 of quantity, because I do not think the quantity con-
14 sumed in Canada varies very much now from family to
15 family -- the per capita consumption in Canada today
16 is about the same as it was 10 years ago -- but I
17 have thought of it in terms of quality, making quality
18 distinctions. In other words, if you can afford to
19 eat caviar, perhaps you should be taxed for your
20 caviar, whereas somebody else who cannot afford to
21 eat caviar should not be taxed for the bread that he
22 eats. This is only personal speculation.

23 THE CHAIRMAN: That is exactly what I
24 am saying. I am suggesting that under this plan
25 everybody would be taxed for all their food, and
26 then everyone would get back an amount of tax, an
27 arbitrary amount, which is established with regard
28 to what everybody spends on necessities. It would
29 be worked out on a sustenance budget, I suppose.
30 In this way the rich man would get the same amount
back as the poor man. If he wants to spend any more
money than that, that is up to him and he pays taxes



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2 on it.

3 MR. BELL: I would like to give that
4 more careful study before making a reply.

5 THE CHAIRMAN: I thought you might be
6 interested in the thought, because that is all it is.

7 MR. BELL: It is very interesting.

8 THE CHAIRMAN: It is an interesting
9 thought. That is all I have to say.

10 COMMISSIONER PERRY: The caviar and
11 champagne approach is a little bit troublesome because
12 there is not much caviar and champagne consumed.
13 What you get down to is really price differentials
14 and sort of a common range of goods. The Chevrolet
15 that has everything on it might cost as much as a
16 stripped down Buick or a stripped down Cadillac.

17 A certain shop might sell a range of men's shoes
18 going from \$10 to \$45, and somewhere in there you have
19 to put an arbitrary line which says that everything
20 above a fixed price is a luxury shoe.

21 This is the sort of decision that I
22 think you are driven to, and once you have tried your
23 hand at it you begin to think you are in a weird
24 wonderland. The whole basis of judgment is subjective.
25 This is the sort of thing you have in mind, is it?

26 MR. BELL: I can appreciate the
27 difficulties that you have raised, but if governments --
28 again to repeat what I have already said -- believe
29 that the commodity tax, particularly the sales tax,
30 is to become relatively more important as a revenue
producer for governments, which has been the case until



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2 now and which I suspect will continue to be the case,
3 then if the degree of progressivity of our taxation
4 system is not to be undermined or reduced, it seems
5 that some means have got to be found for making the
6 sales tax a more progressive tax.

7 COMMISSIONER PERRY: As you know,
8 people like Caldor have gone so far as to develop
9 what is really the counterpart of a progressive tax
10 schedule that applied to spending rather than income,
11 or in addition to income. In other words, you
12 report each year your spending and pay a tax on that
13 at a graduated rate which goes up by the amount of
14 your spending.

15 This is almost the only comprehensive
16 and non-idiotic way of doing it.

17 MR. BELL: I do not see, for example,
18 why a higher sales tax rate should not apply, say, to
19 a \$200 suit, just to pick out a specific item for
20 the purposes of illustration, as compared with a
21 suit of, say, \$75 or \$50.

22 COMMISSIONER PERRY: I think a good case
23 can be made along those lines, but this is the sort of
24 thing you do have to compensate if you are going to
25 base distinctions on price differentials which, from
26 an administrative point of view, cause all kinds of
27 havoc for the retailers.

28 THE CHAIRMAN: Think of all the lobbying!

29 COMMISSIONER PERRY: The trend now
30 is away from this sort of tax. The British had a
highly varied system of rates and are gradually



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2 abandoning them and coming down to one or two rates.
3 However, we get your point.

4 THE CHAIRMAN: Has anybody else any
5 questions? Let us go on, Mr. Coyne.

6 MR. COYNE: I have no questions to ask
7 on the concluding part of the brief, Mr. Chairman.
8 I found it very interesting and I thought it was quite
9 clear. I was not proposing to ask any questions on
10 it.

11 THE CHAIRMAN: Very well. I read this
12 over without marking any questions myself. I do not
13 say that necessarily means that I accept it all, but
14 I do not find anything very controversial in it.

15 MR. COYNE: That brings us to the end
16 of the brief, Mr. Chairman.

17 THE CHAIRMAN: Somebody else may have
18 something to say, or some questions to ask, on the
19 effect on taxation of the growing public sector. You
20 conclude, as practically everybody concludes, I
21 think:

22 "The sales tax, particularly of the
23 'hidden' variety, may become increasingly
24 relied upon by governments for their
25 expending revenue needs."

26 I left out the "hidden" variety when I
27 was dealing with this question because that does not
28 have universal acceptance. A great many people believe
29 it should be brought out; they believe the whole
30 thing should be brought out at the retail level
and shown at that level. But I think, generally



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2 speaking, we have had more attention drawn to the
3 possibility of increasing revenue by sales tax than
4 anything else, by generally increasing the base.

5 MR. BELL: Services particularly.

6 THE CHAIRMAN: That is the main item.

7 COMMISSIONER GRANT: I would like to ask
8 one question. As long as we have the representatives
9 of the Congress before us, I think it would be
10 interesting to find out from them what effect they
11 think the imposition of a federal sales tax at the
12 retail level would have on purchasing power, (a) if
13 that were shown as a separate tax on the purchase of
14 the goods, or (b) if it were a concealed tax, a hidden
15 tax, bearing in mind that a great many people today
16 as they go through the department stores and the chain
17 stores and so on, are not conscious of the fact that
18 they are paying an 11% tax on a great many of the
19 commodities they are buying.

20 Would this be too severe a jolt to the
21 buying public; that is really my question?

22 MR. BELL: This is a very interesting
23 question and I have often thought about it myself.
24 I have never seen any Gallup poll conducted to find
25 out how many consumers are actually aware of the
26 fact that they are paying an 11% sales tax; but I
27 would think that you are right and that comparatively
28 few Canadians are really aware of it. I would think
29 that comparatively few housewives, for example,
30 are aware of the fact that they pay an 11% sales tax,
let alone the somewhat higher tax than that when it



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2 pyramids to them.

3 To answer the second part of your
4 question, if the sales tax were applied right across
5 the board at the retail level, I do not think it
6 would have much of an inhibiting effect on the purchase
7 of goods, simply because the consumer would have no
8 choice in the matter.

9 COMMISSIONER GRANT: It would be a
10 matter of education, do you think; a matter of
11 getting used to it?

12 MR.BELL: Yes, because a number of
13 states apply the sales tax at the retail level, and
14 have done so for many years, and to my knowledge this
15 has had no adverse effect on sales.

16 COMMISSIONER GRANT: Of course, there
17 one must bear in mind that the rate of tax has a
18 great influence upon the reaction of the public. The
19 public will accept, as we know from the provincial
20 experiments, rates varying up to 6% without too much
21 protest, but when that rate becomes 12% or more, that
22 is perhaps another question.

23 MR.BELL: That is perhaps true, and
24 there may be political repercussions from the
25 imposition of a tax of that size at that level.

26 THE CHAIRMAN: That is why you referred
27 to it as most likely being of the "hidden" variety?

28 MR. BELL: Yes; the general sales tax
29 that is applied at the manufacturers' level and which
30 I am pretty sure -- I cannot prove it, of course --
most consumers are not aware of.



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2 THE CHAIRMAN: And you think consumers
3 can be soaked a little harder if they do not know about
4 it?

5 MR. BELL: Oh, absolutely.

6 THE CHAIRMAN: Mr. Coyne, I think we are
7 finished. Thank you very much indeed, gentlemen.
8 This has been a most interesting and productive morning.
9 We have covered a great deal of ground. To all of us
10 here it has been an extremely good discussion. We
11 thank you and will continue to consider what you have
12 put before us.

13 It will be some time before we will be
14 reporting, but this, like all other submissions, will
15 be fully considered before we report. Thank you very
16 much indeed for your help.

17 MR. MacDONALD: Mr. Chairman, Members
18 of the Commission, we in turn, of course, wish to
19 express our appreciation of your very fair, courteous
20 and attentive hearing of our representations. I
21 merely wish to repeat what I said at the outset, that
22 we sincerely hope that your consideration of them will
23 lead to some recognition of them in your report and
24 the implementation of that report, in the general
25 interests of our nation and its people. Thank you,
26 sir.

27 THE CHAIRMAN: Thank you so much,
28 Mr. MacDonald. Do you have something, Mr. Secretary?

29 THE SECRETARY: Just one thing,
30 Mr. Chairman. On the 16th December we received a



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2 supplementary brief from the North-West Line Elevators
3 Association, which I would like to enter into the
4 record as Exhibit No. 300.

5 EXHIBIT NO. 300 -- Supplementary Brief
6 from the North-West
Line Elevators
Association.

7
8 THE CHAIRMAN: We will adjourn until
9 9:30 tomorrow morning.

10 --- The hearing adjourned at 12:45 p.m.
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